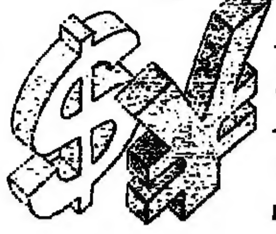
FINANCIAL TIMES



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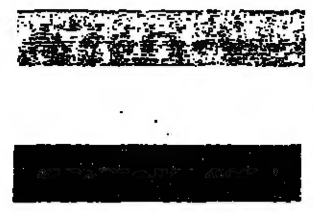

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THURSDAY MAY 16 1996

Dole quits Senate to concentrate on presidential race

Senator Bob Dole yesterday took the extreme step of resigning his seat in Congress to attempt to revive his flagging national campaign for the US presidency. The presumed Republican candidate, trailing President Bill Clinton by an average of 20 points in public opinion polls, advised Senate colleagues of his decision just before an afternoon press conference. It was not immediately clear when he would officially leave the Senate. Page 12; Dole cranks up troubled campaign, Page 7

Sony sales up 15%: Japanese consumer electronics and entertainment group Sony signalled a firm comeback by reporting a 15 per cent rise in consolidated sales for the year to March. Sony posted pre-tax profits of Y138.2bn ($1.3bn), a turnaround from last year's Y220.9bn loss after the goodwill write-off in its Hollywood film business. However, profits were only about half the Y270.7bn posted in 1991. Page 13

UK urged to extend Eurotunnel franchise: French president Jacques Chirac urged the UK to extend Eurotunnel's franchise to operate the Channel tunnel by up to 30 years to bail out the company's beleaguered shareholders. Page 12

Indonesia hostages rescued: Indonesian soldiers rescued six western and three Indonesian hostages held by separatist rebels for more than four months in the remote Irian Jaya province. The rebels are still holding two other captives.

'Kashmir captives dead': Four western hostages kidnapped by Kashmiri Al Faran separatists last July were killed by their captors in December, Indian government sources confirmed. The bodies of the hostages – two Britons, a German and an American – had not yet been found but the killings were admitted by a militant under police interrogation, the official said.

Yeltsin considers coalition idea: President Boris Yeltsin is considering forming a broadly based government of national unity to help heal the rifts in Russian society. Page 2

Estée Lauder, the US cosmetics group, is expected shortly to announce plans to produce women's and men's perfumes for Prada, the Italian family firm which has become one of the hottest fashion houses of the 1990s. Page 13

Murdoch quits race for World Cup rights: Rupert Murdoch's News Corporation pulled out of the multi-billion dollar bidding for global broadcasting rights to the World Cup soccer finals in 2002 and 2006. Page 5

Sharp rise in Japanese shares: The Bank of Japan moved to reassure financial markets that its monetary policy remained unchanged, helping to spur a sharp increase in share prices and a rise in the dollar against the yen. Page 6; Dangerous paradox of Japanese power, Page 10; Lex, Page 12

Canada acts on Quebec independence: Canada's Liberal government aims to regain the initiative in the debate over Quebec independence with a series of moves designed to remind the French-speaking province that secession is likely to be neither smooth nor painless. Page 7

Boost for emerging economies: Private capital flows to the world's largest emerging economies reached a record $200.7bn last year, according to figures from the Institute of International Finance. Page 5

Germany scales back revenue forecasts: The Bonn finance ministry sharply scaled back its expectations of tax revenues for federal, state and local authorities between now and 2000 after a report indicated the German economy probably contracted in the first quarter of this year. Page 2

France Télécom profits slip: France Télécom reported full year net profits down 7.3 per at FFr9.2bn ($1.77bn) as it announced what will probably be the last set of annual results before partial privatisation. Page 14

Record price for Bach manuscript: An original Johann Sebastian Bach manuscript of his Cantata No 2, written and signed by the composer himself, was sold for a record £496,500 ($755,000) at Sotheby's auction house in London.

We regret that because of technical problems, some data on the Managed Funds pages may be pre-close.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,652.42	(+27.70)
NASDAQ Composite	1,241.93	(+7.44)
Europe and Far East		
CAC40	2,124.64	(+2.56)
DAX	2,528.75	(+9.02)
FT-SE 100	3,776.2	(+16.5)
Nikkei	22,055.97	(+754.92)

US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.114%
Long Bond	98¾
Yield	6.839%

OTHER RATES

UK: 3-mo Interbank	6⅜%	(6⅜%)
UK: 10 yr Gilt	98⅞	(98¼)
France: 10 yr OAT	105.52	(105.74)
Germany: 10 yr Bund	95.56	(95.76)
Japan: 10 yr JGB	97.6159	(97.0026)

NORTH SEA OIL (Argus)

Brent Dated	$18.41	(18.59)

GOLD

New York: Comex	$393.5	(392.9)
London: close	$392.70	(392.05)

DOLLAR

New York: lunchtime		
£	1.513	
DM	1.53215	
FFr	5.1875	
SFr	1.2525	
Y	105.765	
London:		
£	1.5131	(1.5153)
DM	1.5341	(1.5368)
FFr	5.1943	(5.1998)
SFr	1.2525	(1.2529)
Y	106.055	(105.95)

STERLING

DM	2.3212	(2.3287)
Tokyo close:	Y 105.90	

Albania	Lek 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch27	Greece	Dr450	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$30	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft175	Morocco	MDh15	Slovak Rp	Sk55
Bulgaria	Lev130.00	Iceland	IKr250	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250
Czech Rp	Kc50	Israel	Shk7.90	Norway	NKr20	Sweden	SKr20
Denmark	DKr18	Italy	L3900	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
Finland	FM15.00	Kuwait	Fils 600	Portugal (mainland)	Esc340	Turkey	L60,000
France	FFr11.20	Lebanon	L$3.00			UAE	Dh12.00

Big fall in EU economic growth

Brussels says many members will still qualify for Emu

By Bruce Clark in Brussels and Gillian Tett in London

The European Commission yesterday reported a sharp downturn in economic growth in the European Union, but insisted that a significant number of its 15 members could still qualify for economic and monetary union in 1999.

The Commission has slashed its growth projections for the 15 member states this year by more than 1 percentage point to 1.5 per cent. It projects growth for 1997 of 2.4 per cent, or half a percentage point down on its previous estimate.

But Mr Yves-Thibault de Silguy, the monetary affairs commissioner, insisted that this gloomy outlook did not dent prospects for establishing a single currency in three years' time. "We consider it realistic, even certain that the timetable [for Emu] will be respected," he said.

Although the growth projections are viewed as realistic by financial analysts, the budget deficit projections were yesterday regarded with scepticism by both economists and some diplomats.

After presenting the economic forecast for 1996 and the "scenario" for 1997, Mr de Silguy described the documents as a "two-toned report – grey for growth in 1996 but rosy for economic convergence in 1997".

Mr de Silguy said Germany, France, the Netherlands and Finland were expected in 1997 to join Denmark, Ireland and Luxembourg in successfully cutting their budget deficits below 3 per cent of GDP.

Austria and Sweden were expected to come very close, while Belgium, Spain, Portugal and the UK could be within ¼ of a percentage point of the benchmark.

Mr Helmut Kohl, Germany's chancellor, who visited the Commission shortly before the report was issued, said he opposed any relaxation of the criteria – covering debt, deficits, inflation, and exchange rate stability – by which candidates for Emu will be selected in 1998.

"I'm strongly against changing the convergence criteria," he said. "Without these strict yardsticks, the efforts at economic consolidation will not be successful." However, Mr Kohl stopped well short of endorsing the Commission's optimistic forecast that a significant number of countries would reach or nearly reach the requirement of a public deficit below 3 per cent of GDP.

"When we take the decision, it should be done at the right time and within the rules of the treaty," he said, referring to the 1998 decision on who should join Emu. The Commission's economic policy guidelines, while calling for a social dialogue with the trade unions, also warned that Emu could be threatened if EU members gave in to social pressures.

"If progress towards sounder public finances and structural reform were to be hampered by rising social and political resistance, this ... might add to doubts among some observers as to whether a sufficient number of member states would be ready to participate in Emu at the starting date," he said.

Sun shines on economy, Page 2

Hindu nationalist party faces struggle to secure majority before deadline

Leader of BJP asked to form government

By Mark Nicholson in New Delhi

Mr Atal Behari Vajpayee, leader of India's Hindu nationalist Bharatiya Janata Party, will be sworn in as interim prime minister at noon in New Delhi today.

Mr Shankar Dayal Sharma, the state president, has given Mr Vajpayee until May 31 to prove he has the backing of a majority in parliament. The BJP and its allies have not been able to secure a majority, and a coalition of secular and regional parties is attempting to block them.

If the BJP succeeds, it will bring to power a Hindu-based party which campaigned on a theme of "cultural nationalism".

During the campaign, the party also pledged a tough security stance, including making India an official nuclear power.

The BJP, closely associated with the 1992 ransacking of the Babri Masjid mosque in Ayodhya by Hindu zealots, softened its pro-Hindu tone. But it said it would end social policies which represent "appeasement" to India's 110m Moslem minority.

Its political opponents claim a BJP dominated government would upset India's delicate religious harmony and raise "communal" tensions.

The BJP also promised to maintain the liberal, free-market economic policies introduced by the Congress party, but with curbs on foreign investment.

Following parliamentary convention, Mr Vajpayee, as leader of the biggest party to emerge from India's 11th general elections, was offered the first chance to form an administration. "We accept this as a challenge," Mr L K Advani, BJP president, said last night. "We are confident we will be able to prove our majority in the house by May 31."

Mr Vajpayee said: "We did not get a true majority, but the mandate has been against the Congress party. Other political parties have failed to earn the people's confidence; the mandate has been, by and large, in favour of the BJP."

Gowda plays waiting game........Page 6
'Softer face of the BJP'..........Page 6

The BJP and its main allies, the Shiv Sena Samata party and two regional parties from Haryana and Punjab, hold 195 seats in the new 545-seat Lok Sabha assembly, 77 short of majority. The BJP is in talks with smaller caste-based parties.

To form a government, it would have to dislodge almost all the bigger regional parties from a coalition with the Janata Dal and some smaller parties. The Janata Dal has launched a rival claim to govern under Mr Deve Gowda, J D chief minister of Karnataka State.

This so-called "third front" met the president last night to put their claim. The group claims the backing of 180 MPs, and has won a pledge of support from the defeated Congress party, which won 136 seats. The communist parties, with 43 seats, would back the new grouping.

Mr Vajpayee said there would be no "horse-trading" to win a majority, but the party faces tough bargaining to win support.

BJP officials said they would seek to entice regional parties to join them by offering law changes to make it harder for the central government to dismiss state administrations and to increase the share of taxes given to states.

BJP leader Atal Behari Vajpayee meeting the media in New Delhi yesterday Picture: Associated Press

Italian magistrates act against Fininvest chiefs

By Robert Graham in Rome and Jimmy Burns in London

Anti-corruption magistrates in Milan issued arrest warrants yesterday for seven senior members of the Fininvest business empire of Mr Silvio Berlusconi, the former Italian prime minister, for alleged falsification of accounts from 1989 to 1995.

The move, after a period of apparent truce during last month's Italian general election campaign, signalled an important new threat to Mr Berlusconi, as Milan magistrates believed they had acquired new evidence regarding the alleged illicit use of funds by Fininvest's foreign subsidiaries.

Part of this is understood to have come from documents seized last month in London by the Serious Fraud Office at the offices of a company linked to Fininvest. The SFO said last night that documents were to be transferred to the Italian prosecutors, but it is understood that Mr Berlusconi's lawyers were preparing a court action to try to halt the transfer.

The SFO said it intended to deliver the documents to the Home Office for transfer to Italy. It would defend itself against any challenge.

The arrests marked a further stage in efforts to demonstrate that Mr Berlusconi continued to retain a form of control over Telepiu, the pay-TV station he founded but was obliged in 1991 by anti-trust laws to divest all but 10 per cent. If proven, the allegations could lead to the loss of his commercial television licences.

The arrest warrants issued yesterday also alleged that the group's accounts had been falsified in association with Mr Berlusconi and Mr Giancarlo Foscale, the latter's cousin and a key figure in the Fininvest empire.

Mr Berlusconi is currently standing trial for allegedly being party to bribes paid to the Guardia di Finanza (financial police) to ensure benign tax inspections of Fininvest companies' accounts.

With the advent of a centre-left government in Italy, there have been suggestions that all the parties will seek to find a solution to the serious problems raised by the four-year-old corruption scandals. However, political commentators said yesterday that if Mr Berlusconi became more deeply implicated by the latest investigations, it would complicate the idea of any amnesty.

It would also raise further serious questions about Mr Berlusconi's political future and the fate of his Forza Italia movement.

Three arrest warrants were issued yesterday against people in Monte Carlo, including Mr Livio Gironi, a former Fininvest finance manager and currently a board member and adviser, and Mr Mario Morazzoni, a former group treasurer. Extradition proceedings are expected to proceed shortly. Until now the Monte Carlo authorities have shown limited co-operation with Milan magistrates on corruption issues.

The other people concerned included Mr Giorgio Vanoni, head of Fininvest's foreign subsidiaries and against whom there has been an international arrest warrant oustanding for several months. His arrest was sought in connection with the transfer in 1991 of a total of L15bn via a Channel Islands company, All Iberian, to Luxembourg accounts controlled by nominees of Mr Bettino Craxi, the former Italian Socialist premier.

Stet looks at telecoms alliance with Veba and C&W

By Alan Cane in London and Our Foreign Staff

Stet, Italy's state-owned telecommunications operator, is discussing an alliance with Veba of Germany and Cable & Wireless of the UK as part of its strategy to secure its future following its privatisation.

Advisers to Mr Romano Prodi, who will be named premier of Italy's first centre-left government in the next few days, have suggested that Stet take a 15 per cent stake in C&W and persuade Veba to raise its 10.5% existing stake in C&W to the statutory limit of 15 per cent. They would also be prepared to see C&W take a crossholding in Stet.

Dr Brian Smith, C&W chairman, who yesterday announced that Mr Richard Brown would be the first US citizen to be appointed chief executive of the UK company, confirmed that talks with Stet were under way and that co-operation with Veba of Germany would also deepen.

But he denied reports that the Italian operator was about to take a share in the UK group and played down the prospect of Veba increasing its shareholding.

The talks come at a time when many of the world's larger telecoms groups are forming alliances to compete for the business of large international customers. So far, Stet has failed to arrange a suitable marriage.

It has been in fruitless talks with IBM of the US on an industrial tie-up for more than two years and had opened contacts with C&W and Veba before C&W began its abortive discussion with British Telecommunications late last year.

The Prodi advisers believe Stet should be privatised quickly but believe it would be more appetising to investors with a clear international partnership already in place. The long delayed privatisation of the 64 per cent stake in Stet owned by IRI the state holding company,worth some L21,000bn, is a top priority for Mr Prodi.

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Accelerating growth and low inflation forecast for EU in half-yearly outlook

Brussels sees sun on economic horizon

By Gillian Tett, Economics Correspondent

When the European Commission unveiled its forecasts yesterday, its message was clear: the economic sun comes out tomorrow.

For though it made no secret that conditions had been disappointing in Europe this year, its outlook was suffused with optimism about the future.

It forecasts that growth will accelerate this autumn, that inflation will remain low – and several countries will reduce their budget deficits sufficiently to qualify for membership of a single currency.

The fly in the ointment is that the Commission doubts whether this upturn will have much impact on Europe's jobless levels.

From some perspectives, this upbeat tone is unsurprising. The Commission's half-yearly outlooks have long had a double role as economic projections and political weapons with which to press member states to pursue healthy policies.

And this year's forecast carried particular significance, given the Commission's determined public optimism about monetary union taking place as planned in 1999.

But outside Commission corridors the reaction was sceptical. For though some of the sums are accepted by the markets, many economists and some diplomats question how the overall arithmetic adds up.

The parts of the forecast which are not controversial are those about growth and inflation. Like most forecasters, the Commission has slashed its growth projections for the 15 member states this year to 1.5 per cent, from the 2.6 per cent it forecast six months ago.

It blames this on four factors: swings in the destocking cycle; the rise in long-term interest rates in 1994; the exchange rate turbulence in 1995; and a loss of confidence across the EU.

However, it is convinced that the indicators should rebound sharply in the second half of the year, leading to a 1997 growth rate only slightly lower than expected last November.

EUROPEAN UNION: KEY ECONOMIC PROJECTIONS

	GDP growth* 1996	GDP growth* 1997	Fiscal deficit** 1996	Fiscal deficit** 1997
Belgium	1.1	2.3	-3.2	-3.7
Denmark	1.3	2.7	-0.9	-0.6
Germany	0.5	1.8	-3.9	-2.9
Greece	2.0	2.5	-8.1	-6.9
Spain	2.0	2.9	-4.8	-3.7
France	1.0	2.1	-4.2	-3.0
Ireland	5.6	4.9	-2.0	-1.6
Iceland	1.6	2.7	-6.3	-5.2
Luxembourg	2.6	3.0	0.7	0.3
Netherlands	1.6	2.5	-3.5	-2.9
Austria	0.7	1.1	-4.6	-3.1
Portugal	2.3	2.8	-4.4	-3.7
Finland	3.0	3.6	-3.3	-1.6
Sweden	1.2	2.0	-5.2	-3.1
UK	2.4	3.0	-4.4	-3.7
EU	1.5	2.4	-4.4	-3.4

*GDP annual growth (%) **Fiscal deficit as % of GDP Source: European Commission

Meanwhile, EU inflation is predicted to edge gradually down to 2.4 per cent next year. Spain, Italy and Denmark are all expected to see lower inflation, while Germany's rate would rise slightly.

Thus far, the projections are uncontroversial. Indeed, for Germany, the Commission's outlook is slightly more pessimistic than the markets', while its French forecast is also modest. But the item which yesterday provoked head scratching in the markets was the forecast for budget deficits.

In common with most economists, Brussels accepts that Britain, Belgium, Spain, Italy, and Portugal will all fail to meet the Maastricht convergence criterion. This stipulates that countries' budget deficits should be no more than 3 per cent of gross domestic product in 1997 to enter EMU in 1999.

Austria is also (and more controversially) projected to miss narrowly. However, both France and Germany squeak through, with France hitting the outer limit exactly.

The precision by which the two countries "pass" the test in itself provoked suspicion. But, more specifically, economists found the projections odd, given the modest – and sensible – growth forecasts.

As Mr Didier Maillard, chief economist at Paribas in Paris, said: "Our opinion is that it will be very hard for both countries to hit the 3 per cent target given the slowdown in growth." Mr Ian Harwood of Kleinwort Benson group, part of Dresdner Bank, said: "They have either put a spin on it or they have factored in further cuts in [budgets] under pressure from governments."

The numbers have undoubtedly been subject to considerable discussion in recent days: earlier drafts of the report suggested that France would need to take more action on its deficit, while some observers suspected that Germany might also not meet the target.

But the Commission vehemently denies that it massages numbers, and yesterday insisted it did not base the projections on anything other than planned government spending cuts.

One solution to the puzzle might be that governments' have very optimistic tax revenues. Some observers also suspect that the French and German governments have told the Commission privately they plan even more radical cuts or tax rises.

Brussels denies this is the case. But the implication remains that the sums can only be reached if governments implement more sweeping tax rises and spending cuts than their populations expect.

But though the Commission itself need not worry about the feasibility of all this, it will leave a large question mark hanging over the forecasts this year.

German slowdown hits revenue forecasts

By Peter Norman in Bonn

The German economy probably contracted in the first quarter of this year, prompting the Bonn finance ministry to scale back sharply its expectations of tax revenues for federal, state and local authorities between now and 2000.

The Berlin-based DIW research institute reported yesterday that an unusually harsh winter helped push first quarter real gross domestic product 0.5 per cent below the previous three months' level and 0.1 per cent below the first quarter of 1995. The DIW figures, adjusted for inflation and to reflect normal changes in the seasons and working days, are released some weeks ahead of official GDP statistics.

The institute said output in eastern Germany contracted 2.5 per cent compared with the final 1995 quarter and was 0.7 per cent below the first 1995 quarter, largely because of a weather-induced collapse of construction activity.

Its statistics showed the western German economy stagnated in the first quarter while output nationwide was flat in the final quarter of 1995. This latter finding contrasted with an earlier DIW report and recent official figures which pointed to a drop in GDP late last year.

Mr Theo Waigel, finance minister, said the long winter had forced the government to cut its expectations of growth and tax income for this and subsequent years.

Reporting on the findings of a group of expert officials, he said overall revenues for federal, state and local authorities this year were now expected to be DM807.1bn ($526bn), or DM21.7bn below a forecast of last October.

The minister said federal tax income alone was expected to be DM11.8bn less this year than was thought seven months ago.

Yesterday's official revenue forecasts were slightly less bad than those discussed at a meeting of German state prime ministers last weekend.

The ministry also published revenue forecasts for future years, compared with forecasts of May 1995 adjusted for the impact of tax changes that took effect in January this year.

The expected revenue gaps ranged from DM66.5bn for all levels of government in 1997 – the year which will provide the data for European Union countries to qualify for membership of economic and monetary union from January 1 1999 – to DM100bn in 2000.

Yesterday's figures will form the basis of the government's revenue estimates for the federal budget, due to be agreed by the cabinet in July.

Despite the large shortfalls, Mr Waigel said there was no reason for pessimism or change in the government's economic and financial policies.

However, the figures emphasised the need to push through in full the programme of spending cuts, tax changes and welfare restructuring announced last month.

Government of national unity idea adds to election confusion

Yeltsin ponders broad coalition

By John Thornhill in Moscow

President Boris Yeltsin is considering forming a broadly-based government of national unity to help heal the rifts in Russian society, the presidential press spokesman said yesterday. However, it would probably not happen until after the first round of next month's presidential election.

The possibility, long rumoured in Moscow, adds to the political confusion and raises constitutional concerns in the run-up to the elections.

Some believe discussions about the formation of a coalition government are evidence of the feverish political mood in Moscow. They say the president's campaign team appears to be working on a broad range of possible tactics to ensure Mr Yeltsin retains power – including plans for some sort of state of emergency.

They also point to comments earlier this month by Mr Alexander Korzhakov, head of the presidential bodyguard, that elections should be postponed – though these comments were later rejected by Mr Yeltsin.

Three more Russian soldiers were shot dead yesterday in the ruined Chechen capital, Grozny, which President Boris Yeltsin is due to visit soon, AFP reports. The three *kontraktniki* – volunteer soldiers on a paid contract, rather than conscript soldiers – were killed in bursts of automatic rifle fire. *Kontraktniki* are widely hated by Chechens. "Go and look how much we love Russians," said one street vendor, adding: "Well done, our lads."

The incident demonstrated what a security nightmare Mr Yeltsin's visit, planned for mid-month, would be.

The president discussed the formation of a coalition government yesterday with Mr Svyatoslav Fyodorov, a rival presidential candidate who has been pressing for political compromise.

"We need a government of people's confidence to be formed on an honest basis and pool together everyone, including communists, capitalists, and centrists," Mr Fyodorov said, after the meeting. "Yeltsin shares my opinion. He thinks this government should be formed immediately... between the first and second rounds of the elections."

The presidential press spokesman suggested Mr Yeltsin did not think the idea was feasible before the first round of the election and needed to give the matter more thought.

Mr Yeltsin has even said he wants to talk directly to Mr Gennady Zyuganov, the Communist party leader and his main presidential rival. That has led some senior Russian officials to speculate that Mr Zyuganov might be offered the post of prime minister after the first round if neither of them won an outright majority.

Creation of such a government could be used as an excuse to postpone the second round – a run-off between the two leading candidates – although this would raise serious constitutional concerns. It also appears unlikely that the Communist party would countenance such a move.

In recent days, Mr Yeltsin has also met other presidential candidates, including Mr Grigory Yavlinksy, leader of the liberal Yabloko bloc, and Mr Alexander Lebed, the former military commander, to discuss creating a unified democratic bloc but has met with a cool response.

Some political observers argue Mr Yeltsin is just toying with these so-called "third force" candidates to destroy their credibility as independent politicians.

But he could also be angling to win their backing should the elections go into a second round.

Many of Russia's bankers and business leaders, who fear the upheaval the elections might produce, have also been pressing for a government of national unity. The Russian Union of Industrialists and Businessmen yesterday called on all politicians to discard "ambitions, narrow interest, and mutual attacks" to counter the dangerous polarisation of society.

Sprucing up his image: A Moscow city worker passes a cloth over a Yeltsin election poster Reuter

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Tudjman furious over European bar

By Laura Silber and Anthony Robinson in Zagreb

President Franjo Tudjman of Croatia reacted angrily yesterday to this week's decision by ministers of the Council of Europe to postpone his country's entry into Europe's oldest political institution. "It is strange and surprising that they made this decision after accepting countries such as Albania, Moldova and Russia. While fighting Serbian aggression we have established democracy and held four elections. It is difficult to explain this decision as anything other than ill-will towards Croatia," he said in an interview.

For the first time in the Council's 47-year history, ministers overruled a European parliament vote in favour of entry because of Croatia's failure to comply with the human rights obligations.

Since the parliament's vote last month, the Croatian government has cracked down on the independent media and continues to veto the appointment of a mayor for Zagreb, the capital, following the opposition victory in elections six months ago. The official press has also attacked Mr Ivan Zvonimir Cicak, the leading human rights campaigner.

Diplomats cited as grounds for the ministers' decision Zagreb's failure to protect minorities adequately or to ease the return of Serb refugees, insufficient co-operation with the international war crimes tribunal for former Yugoslavia in The Hague, and Croatian obstruction of the reunification of the divided Bosnian town of Mostar.

Mr Tudjman dismissed the objections as "completely unjustified and unacceptable". Croatia had done more than any other European state to contribute to the resolution of the crisis in Bosnia-Hercegovina, he said. Under the Dayton accords signed last December, Bosnian Croats agreed to dissolve their mini-state of Herceg-Bosna and create a joint administration with Bosnian Moslems in Mostar.

The Nato-led Implementation Force has 60,000 troops in Bosnia to consolidate the fragile peace process. Under the Dayton agreements, Bosnia-Hercegovina is confirmed within its internationally recognised borders but divided roughly in half between the Bosnian Serb mini-state of Republika Srpska and a Moslem-Croat federation. In practice, Bosnian Croats have blocked the creation of joint organisations with the Moslems.

At the same time, only a few thousand of over 150,000 Serb refugees who fled the Croatian army's reconquest of the third of Croatian territory formerly controlled by the Serbs have been allowed to return to their homes, most of which have been burnt and looted.

Bosnian Serb chief sacks potential rival

By Laura Silber in Zagreb

The Bosnian Serb leader Mr Radovan Karadzic yesterday sacked Mr Rajko Kasagic as prime minister of Republika Srpska, signalling that hard-liners have gained the upper hand in the Bosnian Serb entity.

The move casts a shadow over prospects for Serb co-operation with the Dayton peace accords in Bosnia.

From northwestern Banja Luka, the biggest Serb town in Bosnia, Mr Kasagic was seen as more loyal to Belgrade than Pale, Mr Karadzic's stronghold above Sarajevo.

On the instructions of President Slobodan Milosevic of Serbia, Mr Kasagic has proved willing to co-operate with international mediators, and even his Moslem and Croat foes, in implementing the Dayton agreement, secured by a 60,000-strong Nato-led Implementation Force (Ifor).

It is likely that Mr Kasagic, who has a picture of President Bill Clinton in his office, will attempt to launch a comeback. Earlier this week, he was reported to be planning to oust several ministers loyal to Mr Karadzic.

He has been promoted by Belgrade and international mediators as an alternative to Mr Karadzic, who, as a suspected war criminal, has been shunned. Ifor has instructions to arrest Mr Karadzic and his military commander, General Ratko Mladic, if they come into contact with the international force.

After the Dayton agreement was signed last December, Mr Kasagic was appointed prime minister of Republika Srpska, which, along with the Moslem-Croat Federation, now comprises Bosnia.

In a statement yesterday, Mr Karadzic said Mr Kasagic had been ousted because he "failed to adapt to his work, which would undoubtedly jeopardise the interests of the country and its people". Mr Kasagic was sacked "in order to protect the constitutional order and prevent the further deepening of the crisis in the functioning of the government".

Mr Colum Murphy, the spokesman for Mr Carl Bildt, the international community's high representative in Bosnia, said Mr Bildt was "outraged by this attempted coup against the Dayton agreement. It is a putsch and we will not recognise it. We will continue to do business with Mr Kasagic".

There was no immediate reaction from Mr Kasagic. But reports in Belgrade said Mr Milosevic earlier this week had summoned the two Bosnian Serb leaders to the Serbian capital. Mr Milosevic is under considerable international pressure to get rid of Mr Karadzic.

On Monday, Mr Karadzic announced he would run for office in Bosnia-wide elections due to be held in September despite the ban under the Dayton agreement, which says anyone indicted as a war criminal by the international tribunal cannot stand.

The power struggle between Mr Kasagic and Mr Karadzic is actually the conflict between the Bosnian Serb leader and Mr Milosevic. It reflects divisions which run deep within the Serbian political body.

They represent two Serbian political traditions: Mr Karadzic, the right-wing Chetnik monarchist, and Mr Milosevic, the Communist partisans of the second world war.

EUROPEAN NEWS DIGEST

Plea to save Gdansk yard

Shipowners who have orders worth $850m at Poland's near-bankrupt Gdansk Shipyard have written to the government urging it to support the yard or face hurting the credibility of the country's shipbuilding industry. The six companies, which include owners from Germany, Denmark, Canada and Greece, say they are dismayed the government is considering declaring the yard bankrupt as a means of forcing a renegotiation of existing contracts.

They say they think it "unimaginable that the Polish government would actually arrange for its own state-controlled entity to go bankrupt", and warn that they "will protect their contractual rights by legal and other means". The warning comes as the government is looking for investors abroad for the yard, which has debts of more than 300m zlotys ($110m). The Korean corporation LG International, which currently has no shipbuilding interests, has said it is considering taking a stake. *Christopher Bobinski, Gdansk*

Srebrenica 'survivors' emerge

Seven armed men who surrendered to Nato forces last week in Republika Srpska, the Serb statelet within Bosnia-Hercegovina, and were subsequently handed over to the local police, are thought to be Srebrenica survivors. All seven men are on both the lists of missing people compiled by the International Committee of the Red Cross and the Bosnian Government, official sources said. The ICRC confirmed last night that at least five of the men had been listed as missing.

The government enclave was overrun by the separatist Serb army last July, despite its status as a UN protected zone. Several Moslem men from Srebrenica who escaped the Serbs' mass execution of the enclaves' male population lived rough in eastern Bosnia for months. One man emerged only last month.

The seven men, who were technically in violation of the Dayton agreement by carrying weapons, are being held by the Serb police for allegedly killing four Serbs the week before near Zvornik, where they were found. Officials connected with the case have dismissed the Serbs' charges against the men as "farcical", but Nato has defended its decision to hand the men over to the Serbs. *Harriet Martin, Sarajevo*

Finnish inflation rate at 0.7%

The annual inflation rate in Finland last month was only 0.7 per cent, down from 1.6 per cent a year earlier, according to the central statistics office. Consumer prices were 0.2 per cent higher in April than the month before, but the rise was mainly due to a 2.8 per cent increase in the price of petrol.

The good news on inflation was tempered by continuing high levels of unemployment. Finland's jobless rate reached 17.4 per cent in April, the labour ministry said. A total of 444,100 people were without jobs last month, about 7,500 less than in March and 15,200 lower than in April last year.

The customs board announced the value of exports rose 13 per cent year-on-year in 1995, and that of imports rose 5 per cent. The December trade surplus was FM4.45bn ($940m) down from FM4.93bn in November. *Agencies, Helsinki*

Aznar in talks with unions

Spain's new conservative prime minister, Mr José Maria Aznar, held his first talks with union leaders yesterday, to discuss how to tackle the country's near 23 per cent unemployment rate. Union leaders, wary of the centre-right Popular party's recently announced spending cuts and privatisation plans, wanted assurance that these would not entail job losses or cuts in social security levels. "They couldn't have started worse – with generalised cost cuts made without consulting anyone," said Mr Antonio Gutierrez, head of the Workers' Commissions union federation.

Yesterday's meeting was the second stage of Mr Aznar's attempt to open negotiations aimed at agreeing a wide-ranging pact for jobs. He met business organisation chairman Mr José Maria Cuevas on Monday. Mr Cuevas wants to go further than the government and looks likely to antagonise the unions with his ideas on labour law reform and changes in education. *Reuter, Madrid*

CFE treaty review opens

Delegates from Europe, the US and Canada opened a key conference yesterday to review the 1990 Conventional Forces in Europe (CFE) treaty, considered an anchor of post-cold war security. More than 50,000 pieces of military equipment have been destroyed in the three-year reduction period which ended last November. The total includes nearly 19,000 battle tanks, 18,000 armoured combat vehicles, and thousands of pieces of artillery, combat aircraft and attack helicopters.

Russia is in technical violation of the pact by failing to meet its weapons cuts obligations by the November deadline. Armenia and Azerbaijan, in dispute over the region of Nagorno-Karabakh, have also yet to meet arms reduction limits. Russia, which has argued that the treaty is outdated, is expected to push for a commitment to a new, modernised arms accord. The conference ends on May 31. *Reuter, Vienna*

Yugoslav bank chief faces sack

The lower chamber of the Yugoslav parliament yesterday voted to dismiss the National Bank governor, Mr Dragoslav Avramovic, after weeks of conflict over the terms of IMF membership, privatisation and fiscal policy; 75 deputies voted for his dismissal, and 33 against, with no abstentions. The upper chamber was expected to vote later in the day or tomorrow, and was also expected to oppose him.

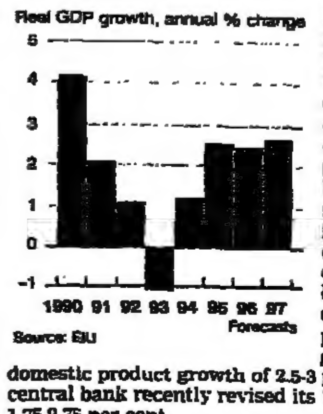
Mr Avramovic had appealed to the government not to sack him and said he wanted to seek deals in support of the dinar.

The IMF dispute has prevented Yugoslavia gaining access to hard currency credits it needs to revive its economy.

"If I make a deal with the Bank of England, the Bundesbank and the Banque de France, there will be no threat to the dinar. That will be the first thing I will do, but only if the government lets me," he said. The dinar, which had been stable at 3.3 to the D-Mark, fell on the black market to 3.45 after parliament began discussing Mr Avramovic's future. *Reuter, Belgrade*

ECONOMIC WATCH

Portuguese GDP rises 1.9%



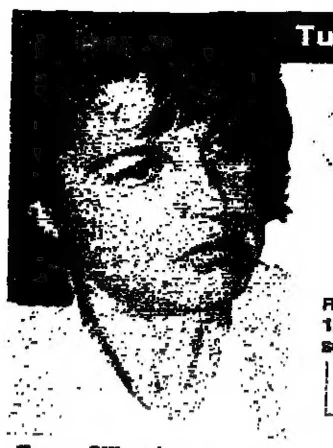
Portugal's gross domestic product grew by 1.9 per cent last year compared with 0.7 per cent in 1994, according to the national statistics institute, INE. This is considerably lower than estimates of 2.5 and 2.25 per cent made recently by the government and the central bank. The Bank of Portugal said yesterday that the INE figure did not include the contribution to GDP growth of the rundown of stocks held by companies. The bank estimates this at 0.3 percentage points in 1995. The government forecasts gross domestic product growth of 2.5-3 per cent this year but the central bank recently revised its 1996 forecast downward to 1.75-2.75 per cent. *Peter Wise, Lisbon*

■ France's current account showed a seasonally adjusted surplus of FFr10.97bn ($2.13bn) in February, down from FFr14.32bn the month before. The total for the two months compares with a FFr28.25bn surplus for the similar period in 1995.

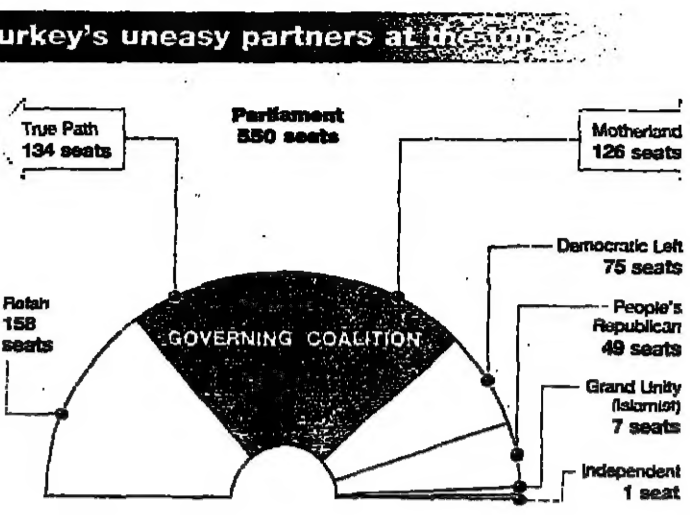
■ Swedish unemployment rose in April to 7.5 per cent of the workforce from 7.4 per cent in March.

Feuding blights Turkish coalition

Ferocious disputes between the party leaders have raised doubts about how long the government can survive, writes John Barham



Tansu Çiller: faces a possible corruption trial in the high court



Mesut Yilmaz: says no one can take office if standing trial

Turkey's conservative coalition, born amid great optimism less than three months ago, appears to be in its death throes.

Its sickly state has dashed hopes that it could deal with the country's economic problems through free market reforms and, above all, that it could hold the line against the advance of radical Islam.

Mr Erol Sabanci, head of Akbank, the country's largest private bank, said: "Public opinion favours a strong centre-right government, but today I doubt the centre-right could get more than 40 per cent [of votes in an election] because of the performance of the government. The business community does not have any confidence in how long this government will last."

Even hardened political observers are surprised by the ferocity of the feuding between the coalition's two partners – the Motherland party of Mr Mesut Yilmaz, the prime minister, and Mrs Tansu Çiller's True Path party. Fewer and fewer MPs from both coalition parties think the government can survive until December.

Motherland MPs are supporting demands by Refah, the Islamist opposition party, to set up parliamentary committees to investigate corruption allegations against Mrs Çiller, with the declared aim of bringing down the government.

Turkey's strong Islamist opposition yesterday stepped up pressure on the conservative coalition to quit after a court ruling cast doubt on the government's constitutional right to its hold on power, Reuter reports. "Work on forming a new government should begin without wasting any time," said Mr Musa Demirci, deputy head of the Islam-based Refah party.

Mr Mesut Yilmaz's coalition partner, Mrs Tansu Çiller, said a new confidence vote was needed in the government after the constitutional court ruled its original March vote was illegal.

Mr Necmettin Erbakan, Refah's leader, said the government was illegal and urged the battered secularist parties to join him in a new ruling alliance.

In April, MPs voted to form a committee to investigate whether she failed to prevent $47m in losses in tenders by Tedaş, the state-owned electricity distributor.

Earlier this month they approved, by an even larger majority, Refah's proposal to investigate allegations first put forward by Mr Yilmaz that she interfered in the privatisation of Tofaş, Turkey's biggest carmaker, to favour a friend.

Next, Refah will demand an investigation into the source of Mrs Çiller's considerable wealth.

If parliament approves the committees' findings – they must report within four months of starting work – then Mrs Çiller must stand trial at the high court.

Mr Yilmaz has already warned that nobody can take office as prime minister if he or she is on trial.

Mrs Çiller could lose her chance of becoming prime minister again on January 1, as required under the Motherland True Path power-sharing formula, because the process would take several months.

Motherland MPs hope Mr Yilmaz would then become undisputed leader of the centre-right.

Mr Sedat Ergin, Ankara bureau chief of the newspaper Hürriyet, said Mrs Çiller "is a survivor, she always finds ways to break out of the siege. But this time the siege is stronger than ever and she does not have enough strength to break the siege."

Pundits are divided over what happens next. A dwindling number believe that the government can muddle on and that a formula will be found to allow Mrs Çiller to take office again for two years as planned. With luck, Motherland and True Path would start co-operating and could even merge later.

However, many more believe Mr Bülent Ecevit, a prime minister in the 1970s and now leader of the moderate Democratic Left party, will head an anti-Islamist coalition.

The military, as politically powerful as ever, favours Mr Ecevit because of his staunchly secularist views. His honesty makes him Turkey's most popular politician.

The other alternative is a Refah-Motherland coalition. Supported by western governments, the secularist elite – the military, media, big business – blocked attempts to form such a government after last December's inconclusive general elections, when Refah took the most votes but no single party won a mandate to govern.

Local elections are due on June 2 and polls indicate Refah should win the most votes, followed by the Democratic Left. The discredited Motherland and True Path would continue losing ground. Few MPs want fresh general elections, since Refah could win a parliamentary majority.

Many business leaders believe Turkey's dire economic situation leaves Mr Ecevit or Mr Necmettin Erbakan, Refah's leader, no other choice but to adopt tough economic policies even though both are populists. Some senior executives privately support a Refah-led government, believing it would allow Motherland's strong economic team to run the economy.

Inflation is running at 81 per cent a year. Real yields on treasury bills are close to 40 per cent. Interest payments are now the largest item in the government budget.

Without some structural reforms to control the budget deficit, forecast at $11.64bn or 7 per cent of gross domestic product this year, interest rates could rise steeply in the autumn, deepening economic instability.

There is a small but growing number of pessimists who expect some serious unrest.

They see no chance of the centre-right uniting. They think an Ecevit or Erbakan government would fail.

An Istanbul-based US businessman, until recently an optimist, said: "I see chronic economic disruption and political polarisation. There no leadership, nobody has the strength to impose a sensible solution."

'Service with a yawn' in Germany's shops

By Michael Lindemann in Bonn

German shoppers are not receiving the service they should, because sales assistants spend too much time reading and even yawning, instead of focusing on clients' needs, according to an international retailers' survey.

The International Menswear Group (IMG), an association of menswear retailers in 12 countries with combined sales of about DM500m ($330m), said German sales assistants were ringing up sales worth only DM220,000 per year, while their international counterparts can manage twice as much – up to DM600,000.

During the IMG's annual meeting, held in Germany last week, members visited a number of shopping areas which, according to Mr Heinrich Thomas Rusche, IMG's German representative, did not impress the visitors.

"I took my colleagues from the US and Australia up and down high streets in Frankfurt and Berlin and they were horrified," Mr Rusche said. "Sales assistants were sitting down, they were reading – some were even yawning. Basically, the message the shopper got is 'What do you want here?'"

Mr Rusche said the poor turnover figures were exacerbated by the fact that Germans generally have little regard for people working in the retail trade.

"The service mentality is simply underdeveloped and now, at a time when we are in a retail crisis, savings are being made at the wrong end, by reducing the number of staff, by neglecting their training. The readiness of a sales assistant to provide a service sinks even further."

Germany's rigid shop opening hours did not help build proper relationships with clients either, Mr Rusche said. "Since antiquity the rule has always been that the seller had to be at the market at a time nominated by the buyer. This is clearly something that has escaped German retailers."

The IMG comparative figures – the association includes among its members shops like Simpsons of Piccadilly in the UK and Old England in Italy – come just as a law to liberalise Germany's restrictive shopping hours finally received its first reading last week in the Bundestag, the lower house of parliament.

There is, however, still a good deal of disquiet about any liberalisation – even among the ranks of Chancellor Helmut Kohl's Christian Democratic Union.

Some CDU deputies fear that shop assistants will have to work longer hours and that the changes will result in an influx of cheaper labour enjoying fewer of the generous social benefits which are standard in Germany.

Significantly, Mr Norbert Blüm, the labour minister who heads the left-leaning faction within the party, has finally thrown his weight behind the liberalisation measures.

Others have vowed to continue their battle against more flexible shopping hours. Mr Julius Louven, the CDU's social affairs spokesman, warned last week that he would try to force some changes to the government's proposals. "Until we finally decide, there is still a need to settle a number of issues," Mr Louven said.

Mr Rusche admitted that while the IMG figures were restricted to quality menswear shops, the German figures included a broad range of retailers. "But even among the top-of-the-range retailers I know of nobody who can generate sales of more than DM350,000," he said.

Czech political leaders launch poll campaigns

Mr Vaclav Klaus, the Czech prime minister, and other political leaders hit the campaign trail yesterday, on the first official day of campaigning for parliamentary elections that the current premier is considered likely to win, AP reports from Prague.

"We offer you liberty and prosperity," Mr Klaus told about 1,000 supporters on Prague's Old Town Square.

Most opinion polls suggest Mr Klaus's governing coalition will continue in office, largely because he helped steer the Czech economy on a free-market course without many of the hardships suffered by other post-Communist countries.

In the west, the Klaus government is given high ratings for fostering political stability and economic reform. This has made the Czech Republic the frontrunner among candidates for European Union and Nato membership.

Sixteen parties will compete in the May 31-June 1 ballot, but only six stand a chance of being represented in the 200-seat parliament.

Mr Klaus's Civic Democratic party (ODS) is leading in all eight of the country's regions, a poll released yesterday showed.

ODS has its largest lead over the main opposition party, the Social Democrats (CSSD), in Prague, where it has the support of 38 per cent of voters to only 19 per cent for the CSSD.

But Northern Moravia, where Mr Klaus and CSSD leader Mr Milos Zeman are running head-to-head, proved to be ODS's weakest region, where it narrowly leads with 29.5 per cent to CSSD's 25.8 per cent.

Overall, ODS remained comfortably ahead of CSSD with 29.1 per cent support compared to 20.4 per cent.

The poll also showed that the current governing coalition, led by ODS, is strongest in Prague, with the support of 55.8 per cent of the electorate, while its weakest position is in western Bohemia, where it has only a 39 per cent rating. Left-wing parties fared best in western Bohemia, with the Communist party (KSCM) gaining 16 per cent support.

The junior ruling coalition partner Christian Democratic Union (KDU-CSL) of vice-premier Mr Josef Lux finds its support mainly in southern Moravia, a largely rural area, where the party polled 14 per cent, the poll showed.

Another junior governing partner, the Civic Democratic Alliance (ODA), received its largest support base in Prague with 11 per cent.

The ultra-right Republican party has its largest support in south Bohemia, central Bohemia and northern Moravia, with 11-12 per cent of respondents in these areas saying they would vote Republican.

Apprehension in corporate circles as threat of US-China trade war looms

US big business fears sanctions

By Richard Waters in New York

With some of the biggest US manufacturers bracing themselves yesterday for retaliation from China in the latest trade dispute between the two nations, the thinly-disguised disagreement in business circles over Washington's handling of the situation threatened to break out in public.

Big aerospace and automobile companies, in particular, fear they will suffer most from the latest round of sabre-rattling, while executives in the software and entertainment industries, traditional supporters of President Clinton, lined up yesterday to support the US administration's hard line on *trade*.

In a statement that made little attempt to veil his company's concern about the tough US stance, Mr Wayne Booker, executive vice-president of Ford Motor, said: "We do not believe unilateral sanctions by either country are constructive or likely to lead to a solution."

His concerns were echoed in a more tempered response from the Emergency Committee for American Trade, a group of exporting companies. Its chairman, Mr Duane Burnham, chief executive of Abbott Laboratories, said members "strongly support expansion of US-China trade ties, including the extension of China's most-*favoured-nation trading status*".

These and other reactions yesterday pointed to growing fears among some US executives that the festering disputes over trade and human rights have cost American companies business in China.

Several big contracts awarded to European companies in the past year have provoked accusations of political preference in the US. A month ago, China passed over Boeing and McDonnell Douglas in favour of Airbus, the consortium of European aircraft makers, when placing a $1.5bn order for 30 new jets. Last year, a big car project went to *Mercedes-Benz rather than* Chrysler. "We never know for sure" if such contracts are awarded on political grounds, said one US car industry executive. "For us, it's a secondary effect."

The outbreak of concern also reflects a fear the Chinese will use recently agreed, but not yet confirmed, orders and contracts as leverage in the dispute. Threatening to withhold final agreements, or cancelling them, would bring the most direct leverage.

General Motors says it expects to invest $2bn in a range of ventures in China "over the next couple of years". Half of that is ear*marked for a new mid-sized car* plant in Shanghai that, though agreed in principle, has yet to receive formal approval. Boeing and McDonnell Douglas are awaiting confirmation of orders for new aircraft.

Among supporters for the US stance yesterday, Mr Gerald Levin, Time Warner chairman, said: "I congratulate the Clinton administration and congressional leaders on their resolve to demand fair and open markets for US intellectual property products in China."

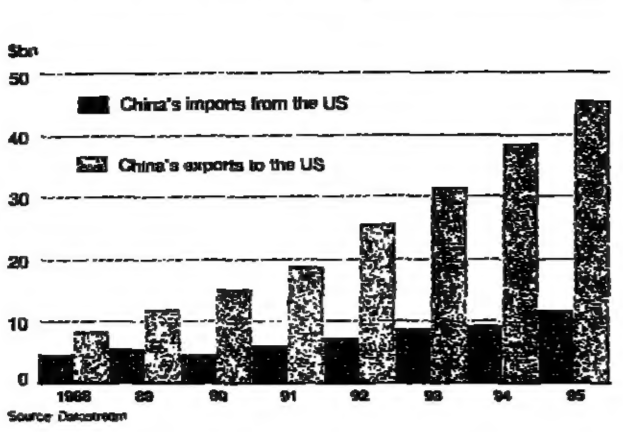
Separately, Chrysler said it was seeking agreement to build a small car for the Chinese mass market, writes Tony *Walker in Beijing. Chrysler* has submitted an application to the Ministry of Machinery Industry. Mr Thomas Gale, Chrysler executive vice-president, said: "Our eyes are open to all possibilities in the Chinese car market".

The US company produces its Jeep Cherokee in partnership with Beijing Auto Works and plans to lift production from 80,000 to 150,000 units a year by 2000. China has placed a freeze on new entrants to car manufacturing until the end of this year while it consolidates a rapidly growing industry. Among foreign manufacturers in China are Volkswagen, Peugeot, Citroen and Daihatsu.

US and China on the warpath: the hit lists

The US has targeted $3bn in Chinese goods for punitive tariffs, including:

Silk clothing	$750m
Clothing from manmade fibres	$555m
Cotton products	$470m
Other textile fibres	$204m
Consumer electronics such as answering & fax machines & cellular phones	$500m
Other goods such as surf boards and gymnasium equipment	$500m



Source: Datastream

China threatens to put special tariffs on US goods such as:
- Agricultural and husbandry products
- Vegetable oils & fats
- Vehicles & spare parts
- Telecommunications equipment
- Cameras, tobacco & alcoholic drinks

And to suspend:
- Imports of audio-visual products
- Approval of some joint-ventures, including tourism & commerce

Concern growing in Hong Kong

By John Ridding in Hong Kong

Hong Kong is viewing the escalating dispute between its two largest trading partners with concern, but not yet alarm.

"We are always worried when relations between any of our major trading partners are bad because we are the piggy in the middle," says Mr Tony Miller, director general of Hong Kong's trade department.

For the moment, however, the Sino-US row has not shaken business and investors. The stock market continued *its rally yesterday, with the* Hang Seng index gaining 46 points to close at 10,863 before the sanctions announcements.

The initial impact of $2bn to $3bn of US sanctions was seen as limited. "Even if you take a port operator such as Hutchison or MTL, then the ultimate effect on trade going through their Hong Kong berths is not too significant," said one freight executive.

Of much greater concern to businessmen and investors is the risk of a tit-for-tat row and the potential implications for the renewal of China's Most Favoured Nation trading status with the US.

Unctad bounces back with a new lease of life

The agency's conference in South Africa showed the threat of abolition has gone, writes **Mark Ashurst**

Mr Rubens Ricupero, secretary-general of the United Nations Conference on Trade and Development, believes the 32-year-old body is embarking on a renaissance.

Amid allegations that its role has been sidelined by the growing influence of the World Trade Organisation (WTO), Unctad's ninth quadrennial conference has revitalised its mission: to champion the interests of developing countries on the world trade agenda.

"Unctad will provide a comprehensive view of the world economy, including relations between trade, investment, technology and finances, and always with a development perspective, looking for more justice, more fairness, and complementing the logic of competition with the logic of solidarity," said Mr Ricupero.

The 14-day conference, which closed in South Africa at the weekend, was the largest international gathering on trade and development. As more than 2,000 delegates including 62 *ministers from 134 countries* returned home, it was clear Mr Ricupero had achieved his immediate priority of rescuing the Geneva-based agency from the threat of abolition.

A former Brazilian finance minister and trade envoy, Mr Ricupero was recruited to *Unctad last year by UN* secretary-general Boutros Boutros Ghali to bring new focus to Unctad's work.

In the wake of a 10 per cent cut in jobs, the conference agreed to streamline its activities by scrapping one *of its two annual executive* meetings and reducing the number of subsidiary commissions from seven to three.

These will deal with trade in goods, services and commodities; investment, technology and finance; and enterprise, business facilitation and development.

But there is scant evidence that a more efficient Unctad will become more effective. It *has often been described as* "the conscience of the UN" because of its ties with developing countries marginalised by world trade.

Neither the UN nor the WTO is bound by Unctad's recommendations, and its influence is no less questionable among poor countries than it is among developed ones.

For example, though compensation for the poorest countries was agreed at the Uruguay Round trade talks, Unctad has little say in refining the terms of that agreement.

"Unctad has never been a forum for debt negotiations. Its role is to provide analytical information and proposals on *problems relating to debt,"* explains Mr Ricupero.

Its achievements, too, are marred by an overlap with initiatives *from other organisations*. A resolution to explore options for a multilateral framework on foreign direct investment in developing countries followed similar proposals in the OECD.

However, Unctad's survival has revived hopes of improved co-operation between the developed world and the Group of 77 nations, which represents 132 of the least developed countries.

"I have a strong sense from G77 that it's been a good dialogue... We're moving from single issues to holistic analysis," said Mr Alec Erwin, South African minister of trade and industry, who will be president of Unctad for the next four years.

WORLD TRADE NEWS DIGEST

Korea Telecom in Hanoi deal

Korea Telecom, the state-run South Korean telecoms company, said yesterday Hanoi had approved a $40m project to install and operate telephone lines in three provinces in northern Vietnam. Mr Kyun-Chul Park, managing director of Korea Telecom's Hanoi office, said the work would be carried out under a "business co-operation contract" (BCC) with Vietnam Posts and Telecommunications (VNPT), the state telecoms monopoly.

Vietnam plans to increase telephone penetration to 5 lines per 100 people by 2000, from one per 100 people now.

Once the lines are installed, Korea Telecom would share call revenue with VNPT for seven years, Mr Park said. However he declined to say how the revenue would be split. Revenue-sharing has been a sore point in talks between VNPT and four other foreign telecoms companies also seeking BCCs with VNPT. The four – Cable & Wireless of Britain, Telstra of Australia, NTT International of Japan and France Telecom – have been discussing possible terms with VNPT for over a year. *Jeremy Grant, Hanoi*

UK and Japan in joint aid plan

The UK and Japan are to carry out a £3.75m ($5.7m) joint aid project in Bosnia, their most important such venture since London and Tokyo agreed to co-operate on foreign aid 18 months ago. While the aid is small, Japanese foreign ministry officials say the project is diplomatically important as the first joint venture with the UK in Bosnia. The aid, which is untied, will be used to repair two electrical power lines over the next few months.

The UK and Japan have already joined forces to provide technical assistance and aid in Zambia, have co-ordinated their aid policies on South Africa and have provided technical assistance in Tanzania and Kenya.

Japan also holds regular consultations on aid policies with other leading donors such as France and Germany. Japanese officials are keen to extend aid joint ventures because of their lack of experience in developing countries outside Asia, which receives 60 per cent of Japanese aid. *William Dawkins, Tokyo*

Thai semiconductor unit planned

Texas Instruments of the US, Acer of Taiwan and Thailand's Alphatec Group yesterday announced plans to invest $200m in a new semiconductor assembly and test facility in Thailand. Production is expected to begin in the second half of 1997, handling 150m units a year.

Mr Charn Uswachoke, head of the Alphatec Group, will personally hold 51 per cent of the new company, called Alpha Memory. Texas Instruments will own 33 per cent, with the remaining 16 per cent held by TI-Acer, a Taiwanese joint-venture between Texas Instruments and Acer.

Alpha Memory is the second joint venture involving Mr Charn and Texas Instruments. Last December they formed Alpha-TI a $1.2bn company to build advanced memory chips, known as D-Rams. Some production from Alpha-TI is expected to be passed on to Alpha Memory for final assembly and testing. *Ted Bardacke, Bangkok*

EBRD takes Latvia bank stake

The European Bank for Reconstruction and Development is to take a 23 per cent stake in Latvijas Unibanka, Latvia's largest commercial bank, with an investment of about $10m. The Latvian government stake will be reduced from around 47 per cent to 25 per cent, while another foreign investor is to inject around $5m to acquire a stake of 11 per cent.

The EBRD equity stake follows its provision of a Ecu16m ($19.8m) line of credit to the bank last December.

Mr David Hexter, EBRD deputy vice president, said the injection of new equity would enable Latvijas Unibanka to serve its customers more effectively as Latvia moved towards a market-oriented economy and would help it to expand its corporate lending. *Kevin Done, East Europe Correspondent*

■ Nokia Telecommunications has won a $30m order to expand the NMT 470 cellular network operated by Mobisel, a joint venture between PT Rajasa Hazanah Perkasa and Indonesia's state-owned PT Telekomunikasi Indonesia. *AFX, Helsinki*

Imported US apples fail to grab big slice of Japanese pie

Worries about food preservatives and fierce competition from local produce have taken much of the shine off US exporters' hopes

Imported US apples which arrived in Japanese shops amid much fanfare in the winter of 1994 have all but disappeared from Japan in their second season.

In the first year after intense US government pressure opened Japan's doors to Golden Delicious and Red Delicious apples from the US, nearly 8,500 tonnes were imported. Since then sales have plunged to 803 tonnes, less than a tenth. In comparison Japan's apple harvest last year was 963,300 tons.

Jusco, a leading supermarket chain, did not stock any US apples this year while Ito Yokado, a competitor, sold only half the amount it had planned in the December to April season.

"Last year, when the market was liberalised, we carried US apples in our stores so that we could have a wide product range, but this year we did not carry any because Japanese consumers prefer domestic apples," explained Jusco.

Most retailers ascribe the poor performance of US apples to consumer preference. Japanese consumers like their apples sweet. "The season for US apples happens to coincide with that for domestic apples such as Jonah Gold and Ohrin, which are very sweet," says Jusco.

Sales of US apples have also been hurt by the popular perception, propagated by consumer groups, that the imported apples have been soaked in preservatives to help them survive the journey across the Pacific.

One consumer, Mrs Keiko Miyaguchi of Saitama, north of Tokyo, says: "My friends shun US apples because they are afraid of the preservatives. Since there are so many Japanese varieties to choose from, they see no need to buy apples which could be covered with preservatives.

"Because the apples are such a dark red, it reminds them of the poisonous apple in Snow White."

The ministry of agriculture denies that US apples are any less safe than Japanese apples. "They have met our requirements and that is why they have been allowed into the country," an official said.

Nevertheless, there is deep-rooted concern about the use of preservatives, which appeared to be justified when mould prevention preservatives were detected in some shipments last year.

US apples have not been helped either by the lack of enthusiasm shown by some retailers towards them. Jusco openly admits that it favours domestic produce in its stores. To help Japanese apples compete with those from the US on price – which was considered one of the major advantages of US apples – Jusco worked with domestic growers to lower distribution and handling costs.

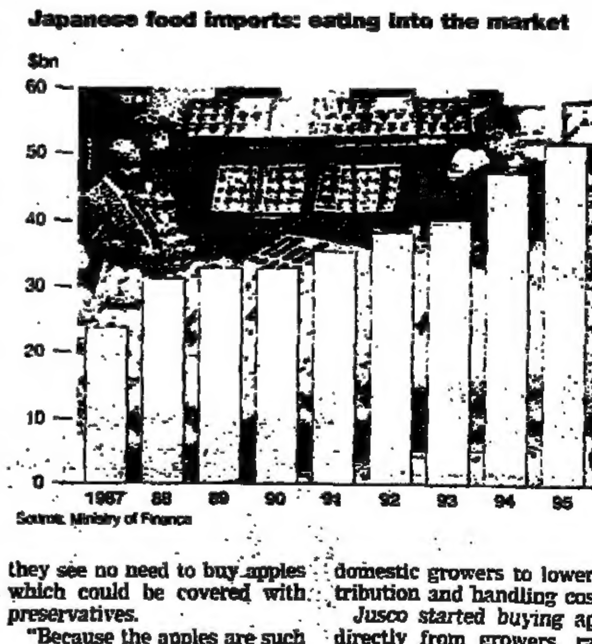
Jusco started buying apples directly from growers, rather than through wholesalers, to reduce distribution costs. That also meant it could cut handling costs substantially.

Previously, apples which arrived at Jusco supermarkets were sorted by size and grade at more than 20 points. First, the growers would sort them roughly according to size, then the agricultural co-operatives would put them through sorting machines and wholesalers would classify them by quality within a size group, and so on *along the distribution chain*.

By buying directly from growers, and selling roughly similar apples in bags of six or so, rather than individually by class, Jusco was able to cut the price of domestic apples by about 30 per cent.

Japanese consumers may be some of the most finicky in the world, but they are hardly averse to imports, even of food. Japan is the world's largest importer of agricultural products, with food imports growing last year to $51.49bn. The US is the largest supplier of food imports, with a 28.8 per cent market share, according to the Japan External Trade Organisation.

Japanese food imports: eating into the market



Source: Ministry of Finance

US cherries, for example, saw imports jump from 5,814 tonnes in 1991, when the market was liberalised to 12,208 tonnes last year. The level of imports compares favourably with domestic production of 15,300 tonnes last year. Although US Bing cherries taste and look very different from the Japanese variety, which is smaller, sweeter and lighter in colour, they have a distinct advantage in being much cheaper.

US beef has also won wide acceptance, in spite of initial scepticism. In 1987, Mr Tsutomu Hata, then agriculture minister, said Japan could not liberalise beef imports since Japanese have longer intestines than Americans, making *it harder for them to digest US* beef.

In defiance of Mr Hata's concern, US beef has gone on to capture nearly 30 per cent of the Japanese market, with imports reaching 298,459 tons last year, according to the US Meat Export Federation. Japan now relies on imports for nearly 60 per cent of its beef consumption.

US apples may eventually share the happier experience of other agricultural imports to Japan. But having stumbled in its second season on the market, and faced with a poor image among consumers and stiffer competition from domestic growers, US apples will need more than a marketing blitz to win a larger share of the Japanese pie.

Michiyo Nakamoto

Murdoch quits race for World Cup TV

By Jimmy Burns

Mr Rupert Murdoch's News Corporation has pulled out of the multi-billion dollar bidding for global broadcasting rights for the World Cup soccer finals in 2002 and 2006.

Neither News Corporation nor Fifa, the world governing body for football, would comment on the withdrawal.

Fifa yesterday published a list of final offers received by yesterday's deadline.

Apart from the withdrawal of Mr Murdoch, the list revealed two surprise additions: Cable TV (Hong Kong) and a combined offer involving Fifa's long-term marketing arm ISL, and the German media group Kirch through its share holding in ISPR.

Final offers have also been received from Capital Cities' ABC, the subsidiary of Walt Disney, and owner of ESPN, the US cable network programme, the Swiss-based sports company CWL-Luthi, the International Management Group headed by Mr Mark McCormack, and Team, the Lucerne-based marketing arm for the Champions League run by Uefa, the European football union.

According to some media analysts yesterday, one reason behind the Murdoch pullout is the widespread scepticism about the bidding process implemented by Fifa, leading News Corporation to opt to await developments.

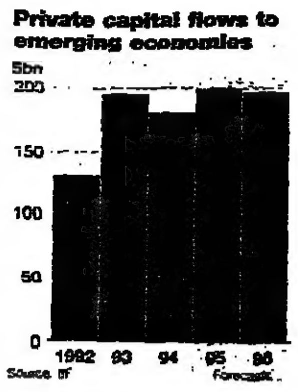
One senior executive closely linked to the offers yesterday said he thought it possible that the bidding process might be opposed by members of Fifa's executive committee when it meets on May 31 to discuss a report on the offers.

One of the objections raised by media groups is that offers are being sought for two world cups during a period when market conditions for broadcasting rights are expected to change substantially.

Meanwhile Fifa yesterday confirmed its refusal of a proposal that South Korea and Japan co-host the 2002 World Cup.

Record $200bn flows into emerging economies

Private capital flows to emerging economies



Source: IIF

By George Graham, Banking Correspondent

Private capital flows to the world's largest emerging economies reached a record $200.7bn last year, despite the shock of the Mexican currency crisis, according to figures compiled by the Institute of International Finance.

The IIF, a Washington-based grouping of banks and financial institutions, said bond finance for the 31 principal emerging markets had halved to $22.8bn in the wake of the Mexican crisis.

Bank funding, however, had taken up the slack, while equity investment continued to grow steadily.

Net equity investment rose by 3 per cent to $94.6bn, and the IIF forecasts net equity flows of more than $102bn in 1996.

Mr Bill Cline, the Institute's chief economist, said the sustained level of private capital flows was "quite remarkable" considering the test posed to the international financial system by the Mexican peso crisis.

The supply of capital remains plentiful, but borrowers are being cautious; the result is that interest rate spreads paid by Latin American borrowers, which had widened to almost 5 percentage points in the immediate aftermath of the peso crisis last February, have narrowed back to the level of about 2½ points paid before the crisis.

Public and private sector borrowers together have issued more than $200bn of bonds since 1990, when the international capital markets started to reopen to many emerging economies.

Because many of these bond issues had maturities of five years or less, the number of redemptions will rise sharply over the next few years. That indicates that international bond issues will have to rise sharply over the next two years just to keep net flows of capital constant.

A number of sovereign borrowers, particularly in Latin America, have taken advantage of more favourable market conditions to lengthen the maturities of their bonds.

The average maturity of bonds issued in the first quarter of this year lengthened to 8.2 years, compared with 5.8 years in 1995.

The IIF is forecasting that net flows from private non-bank creditors, principally bond financing, will recover this year to the $44bn level recorded in 1994. Bank financing, the institute estimates, will fall back to $50.7bn after 1995's surge to $83.3bn.

Mr Charles Dallara, the Institute's managing director, said that despite evident problems in the economic outlook and banking sector of Bulgaria, a default on Bulgarian debt was not probable this year. Nor, if a default should occur, would it be likely to damage other financial markets, as Mexico's problems had done.

"We don't see the potential in 1996 for a debt servicing problem on their Brady bonds," he said, although he warned that economic policy corrections were needed.

"Even if the Bulgarian situation were to deteriorate further, I see little potential for a spillover into other markets."

Tajik fighting splits north and south

IMF loan will come to a country still healing its civil war wounds

When the International Monetary Fund announced a $22m loan to Tajikistan last week, its government might have been tempted to cheer.

The agreement, which involves an IMF-backed austerity programme, follows a year of difficult negotiations and is a big boost to an impoverished country torn apart by civil war three years ago.

Although it is an important boost for the government's credibility, the IMF's demand for tight budget discipline comes at a time when social tensions and economic rivalries have erupted this week in the north – hitherto the country's one peaceful region.

Demonstrations against the Kulyabi minority from the south, by up to 5,000 people, have been under way since Sunday in northern cities such as Khodjent and Ura-Tyupe. The Kulyabis are resented for allegedly taking over shops, houses and government posts from local people.

The north is the only area to have attracted significant foreign investment

It largely avoided the 1992 civil war – being cut off from the south by mountains – and has a rich supply of cotton and minerals. Zeravshan Gold, a British-Tajik joint venture, started producing gold earlier this year in the north and expects to produce 3.5 tonnes a year soon.

The disturbances are ominous for the republic's 5m population.

So far, investors have reacted calmly to events. Mr Kwon Yeng Rok, a South Korean director of a Khodjent textile joint venture, cheerily dismisses fears of violence. "Common sense will prevail here," he says.

However, the demonstrations reveal the shifting political alliances in the geopolitically sensitive republic.

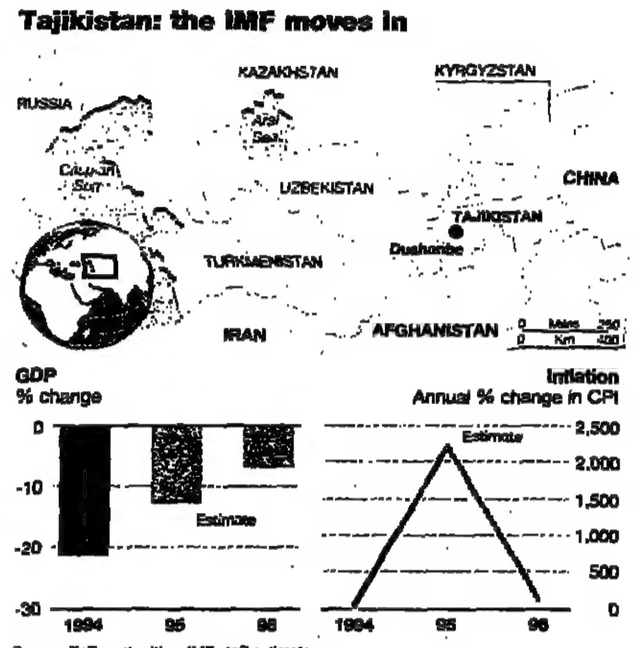
The 1992 Tajik civil war was largely driven by rivalries between different valley regions.

The faction that won the war, and now forms the government, is from the poor Kulyab area in the south. This group has up to now been supported by the Russians, who have 25,000 troops in the area.

But to beat the Islamic and democratic opposition, which was formed from other regional factions, the Kulyabis also allied with Tajiks from the north. This was the republic's rich, industrial area, and dominated the Communist party during the Soviet era.

Over the past year, this alliance has started to unravel, partly because of squabbles over resources such as cotton and the growing drugs trade. The Khodjentis are also irritated by the Kulyabis' failure to make peace with the opposition who lost the civil war and are continuing to attack the republic from bases in Afghanistan.

Tajikistan: the IMF moves in



Source: Tajik authorities, IMF staff estimates

The tension has been fuelled by the economic gap between the rich north and poor south, triggering a migration of Kulyabis into the north.

This week's protests began when a popular local restaurateur in Khodjent was murdered at the weekend. This led to calls for the departure of all Kulyabis and the sacking of Kulyabi officials.

The demonstrators also demanded that local consripts no longer be sent south to fight. "Let the Kulyabis go home and clean up their own mess," one demonstrator shouted at the rallies. A truck driver added: "If the Kulyabi don't leave, there will be war."

These wild predictions are probably exaggerated. But local politicians are aware that the civil war started with similar rallies.

President Imamali Rakhmonov, whose rise to power was backed by Russia, is taking the protests seriously; a local Kulyabi police chief in the north has been sacked, and crack troops have been sent there.

The president has reason to feel nervous. Three months ago, he faced a separate military challenge when two southern war lords revolted. The insurgents were apparently appeased, but their revolt weakened Mr Rakhmonov.

Separate fighting has also flared in south-east Tajikistan, after the opposition invaded the strategic Tajik town of Tavil-Dara. United Nations-sponsored peace talks appear deadlocked.

There is widespread poverty in the south and IMF-backed budget deficit cuts could hit state salaries and benefits.

Western economists insist these problems should ease as the economy stabilises, particularly if the IMF agreement attracts western investment and assistance. The IMF loan will probably be followed by $55m-worth of assistance from the World Bank.

But Tajikistan's tragedy is that it will be difficult to reform the economy while political instability lingers. As this week's events have shown, it may be equally difficult to solve the political tensions while the country's limited resources are so unevenly spread.

Gillian Tett and Sander Thoenes

G10 recipe for bond defaulters

By Graham Bowley, Economics Staff

The International Monetary Fund should consider lending money to countries which are in default with their bond holders, the Group of Ten leading industrial nations said yesterday.

At present, the IMF lends money in exceptional circumstances to countries in default on commercial bank loans. The G10 said this facility should be extended to countries in default on bonds and other securities in order not to exacerbate countries' adjustment problems in the wake of a Mexican-style financial crisis.

The proposal is one of a series of suggestions by the G10, full details of which were disclosed yesterday, aimed at ensuring a faster and more orderly resolution in the event of another financial crisis such as that in Mexico in December 1994.

Then, the US led a $40bn support package, which ensured full repayment of bondholders. But the G10 yesterday reiterated its view that in the future bondholders should not expect to be bailed out by governments or official institutions.

Instead it favours a market-led approach to resolving sovereign liquidity crises, in which debtor countries and creditors work among themselves to resolve their difficulties.

Mr Mario Draghi, chairman of the deputies of the G10, said: "Investors must bear the consequences of the decisions they make and should not expect the international community to rescue them when the next sovereign liquidity crisis comes to a head."

The report rejected as "unnecessary and impractical" far-reaching institutional changes such as applying international bankruptcy procedures in the event of a country defaulting on its debt.

Instead it proposed adding a number of provisions to bond contracts which would "help the resolution of a crisis by fostering dialogue and consultation between the sovereign debtor and its creditors, as well as among creditors".

These provisions would include a mechanism to promote collective representation among creditors. At present, bondholders, which are often numerous and vary greatly, are often poorly represented as one unit.

The bonds might also allow for qualified majority voting. At present, most bond contracts stipulate that unanimous agreement among bondholders is necessary before an agreement with the debtor country can be struck.

Finally, the G10 proposes that bonds might include a sharing clause, which would mean all bondholders would receive a share of any money paid by the debtor country.

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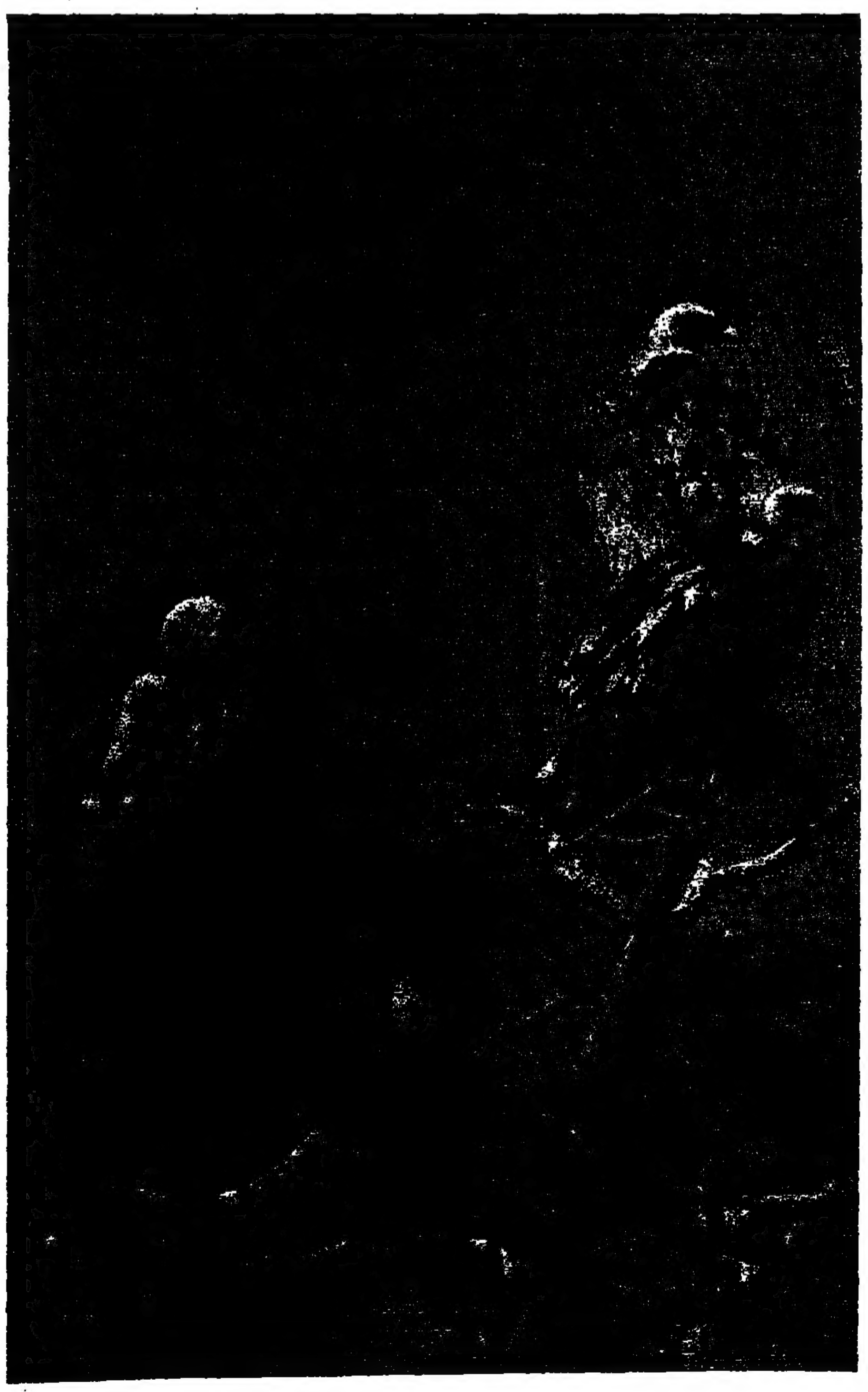


NEWS: ASIA-PACIFIC

FT writers profile Atal Behari Vajpayee, who will today be sworn in as PM of India's first ever BJP-led government, and H D Deve Gowda, who emerged as a compromise candidate to head the Janata Dal-led secular-regional coalition

'Softer face of the BJP' gets his chance at last

By Shiraz Sidhva in New Delhi

Mr Atal Behari Vajpayee has often been called the "softer face of the BJP".

In a party which prides itself on the strict discipline of its cadres, Mr Vajpayee has never been afraid to voice dissent where it was due.

It is his uncompromising integrity and unblemished record as a parliamentarian for nearly 40 years that makes him more acceptable to the people than his Hindu rightwing party will ever be.

When Hindu fanatics destroyed a mosque in Ayodhya in December 1992, sparking riots and claiming 2,000 lives across the country, Mr Vajpayee was the first strongly to condemn the party's involvement. As external affairs minister between 1977-79 in the Janata government, he managed to forge the best relations so far between India and Pakistan, despite the fact that he represented the Jana Sangh, an earlier incarnation of the BJP known for its hard line on relations between the two countries.

The 72-year-old bachelor from Gwalior in Madhya Pradesh is the consensus candidate for the BJP, not because he can speak out against the party's policies, but because there is perhaps no other leader more capable of persuading smaller parties to join the BJP and cobble together a working majority in the next two weeks.

"One reason he is so acceptable to even those who are against his party, and why his party has never adversely reacted to his statements even if they are sometimes unacceptable, is because there are no ulterior motives behind Mr Vajpayee's statements," says Mr Dinanath Misra, a close associate of the prime minister-elect.

> His unblemished record makes him more acceptable to the people of India than his party will ever be

His persuasive powers combined with a sparkling wit and brilliant oratory have made him one of India's most popular parliamentarians.

"He has had the skill of oratory right from the start," says Mr K.R. Malkani, a BJP leader and his colleague of over 50 years.

"He understands crowd psychology very well and is able to strike an instant rapport with the people."

Mr Vajpayee first entered parliament in 1957, winning the Balrampur Lower House seat as a candidate for the Jana Sangh. Within the party too, he is often called on to make peace between dissenting sides, and commands more respect than any of the party's other leaders.

Born into a middle-class family, the son of a Hindi scholar, Mr Vajpayee was fired with the nationalistic fervour of the time to participate in the Quit India movement against the British, for which he spent a short spell in jail in 1942. After a brief career in journalism, he joined the Rashtriya Swayam Sevak Sangh, the parent organisation of the BJP and its allies, to devote himself full-time to social work.

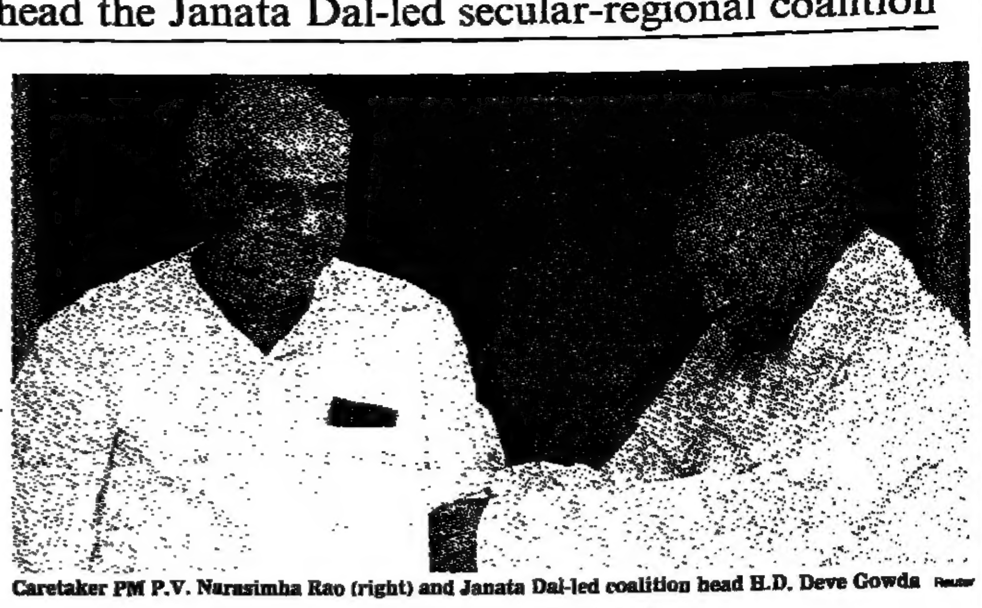
Apart from being drawn towards the highly disciplined Hindu RSS, he had links with the Congress freedom fighters, the Leftist Student's Federation of India, and the Arya Samaj, which propagated a more liberal form of Hinduism than did the RSS. "It is this plurality that made him suggest we work together as part of a national government in 1991," says a senior Congress leader.

Mr Vajpayee's more moderate stance on Hinduism, the rights of minorities, and on the handling of the Kashmir crisis and India's relations with Pakistan, had failed to win the BJP more than two seats in parliament in 1984. In 1989, however, Mr L.K. Advani capitalised on the Ayodhya temple issue to muster support for the BJP.

By 1991, Mr Advani's fiery assertions of *Hindutva* – the clamour for a Hindu state – and his assurances that the majority Hindu community would not be held to ransom by the minority Moslems because they constituted a crucial vote-bank, had won the party enough seats to make it the largest party in the opposition.

The BJP has realised that if it has become the single-largest party in the newly elected Lower House, it is as much because of the disintegration of the Congress party and a lack of options than due to its hardline Hindu agenda.

"By projecting Mr Vajpayee as their leader, the party has admitted that it moved away from its *Hindutva* plank and plans to soften its stand against the minorities," a senior BJP MP said. "We are counting on Mr Vajpayee to be able to gather the support we need to form a government next month. If there is one person who is capable of doing this in the country at this point, it is he."



Caretaker PM P.V. Narasimha Rao (right) and Janata Dal-led coalition head H.D. Deve Gowda Reuter

Gowda plays waiting game

By Mark Nicholson

Should Mr H.D. Deve Gowda, prime ministerial candidate of the newly forged alliance of secular and regional parties, eventually win India's highest executive office, he would be the country's first prime minister to speak virtually no Hindi.

Mr Gowda, 63, speaks the Kannada tongue of his native Karnataka, the southern state where he has been a state politician since 1962, after graduating with a diploma in engineering.

Only a few days ago, the man who could lead a 175-seat coalition government, backed "from the outside" by Congress and India's communist parties, said: "I am not a national leader. I am a humble worker; my area of action will be confined to Karnataka."

Fate could decree otherwise after May 31 if the Bharatiya Janata party fails to secure a majority in the new Lok Sabha parliament.

India could thereafter be led by a self-proclaimed "son of the soil", a teetotal lifetime politician who still keeps a 20-hectare farm.

"He's very rustic," says a Bangalore-based journalist, "and he doesn't find it necessary to appear sophisticated." However, behind the sleepy manner lies the mind of an adept politician, well known to be a good administrator, a pragmatist on economic policy who has backed liberalising reforms in Karnataka, and a canny manager of coalitions.

Mr Gowda "does his politics through coalitions," says a commentator.

He began in the Congress party, but stayed with that part of Congress which split to form the present "social justice" Janata Dal. After three years in Delhi as a Lok Sabha MP, he returned home in 1994 to become Karnataka's chief minister. His skill with alliances has strengthened the party there, which returned 15 of the JD's present 43 MPs.

His quiet style has won more friends than enemies, one reason why he became the consensus candidate for the secular-regional coalition. He is well viewed by Mr P.V. Narasimha Rao, whose Congress party is vital to the coalition's chances of surviving as a government.

Asia warned of need to act on water

By Edward Luce in Manila

Asian governments need to take action if the continent is to avert a looming water crisis, according to water experts meeting in Manila yesterday. They should move rapidly towards the "user pays" principle for water and educate consumers that water is a scarce economic good.

The meeting was hosted by the Asian Development Bank, which estimates that 180m urban dwellers and 690m rural people in Asia lack safe drinking water and access to proper sanitation.

Demand for water was likely to double in Asia by 2025, the conference declared.

Governments should therefore act rapidly to create water management systems capable of meeting such an unprecedented explosion of demand.

Asian water

Percentage of national water supplied to rural areas	80%
Percentage supplied to urban areas	20%
Percentage of water lost in cities through theft and leakage	50%
Percentage of Asians who will live in cities by the year 2025	50%

Source: ADB

"To a certain extent, the water crisis has already started," said Mr Peter Rodgers, a water expert from Harvard University.

"What governments must do quickly is educate people that water is not free and that it is a service which must be paid for according to the 'user pays and the polluter pays' principle. This will lead to the more efficient use of resources."

According to the ADB, most of Asia's "megacities", urban centres of 10m or more, waste 50 per cent of their water through leakage or theft. Countries which have moved to the "user pays" practice and contracted out distribution of water to private management, such as the Solomon Islands, have cut wastage to about 15 per cent, say experts.

While stopping short of recommending complete water privatisation along British lines, water experts advised governments to contract out water management and water services to the private sector on a "concessionaire" basis and to ensure that consumers pay market rates for water.

Residential and industrial consumers should learn that water was as much an economic commodity as electric power or telecommunications.

Nevertheless, governments, some of which devote up to 25 per cent of their capital expenditure to water systems – including dams, irrigation and piping – did not have access to the investment necessary to update Asia's creaky water systems, said experts. Involving the private sector in financing and management of water reforms was vital.

"Asia is not necessarily facing a water shortage but it is certainly facing a crisis of how to manage its water supply and how to fund the modernisation of its water systems," said Mr Paul Mosley, a water expert at the ADB.

"The challenge is to get consumers to pay for what they use and to get the rural sector, which uses up to 80 per cent of total water supply through irrigation, to use water more efficiently."

Laos, for example, which has resources of 66,000 cubic metres of water per head of its population annually, was a much less efficient user of water than Singapore with resources of only 220 cubic metres per head every year, said experts. Because the island state priced water on market-based and transparent lines, residents had an incentive to use it sparingly.

China rules out yuan devaluation

By Tony Walker in Beijing

China yesterday ruled out a currency devaluation this year despite pressures from exporters and an expected slide in its trade balance. "A devaluation of the yuan will not happen," a spokesman for the State Administration of Exchange Control said.

"The prospects for a balance in foreign exchange supply and demand are generally good and therefore the exchange rate of the yuan will remain relatively stable."

The SAEC spokesman's unusually forthright statement indicates official concern about speculation against the yuan. Beijing has made the stability of the yuan a watchword of recent economic policy. The spokesman pointed to China's healthy foreign exchange reserves, which reached $80.83bn in March, up $7.2bn from the end of 1995, as an argument against the need for a devaluation.

He described a surplus on China's current account this year as "optimistically likely". Therefore, he said, the exchange rate "won't be much pressed to fluctuate".

The SAEC official called on state companies to "make realistic judgments" on the currency's value, saying a devaluation would "damp ongoing efforts by enterprises to improve efficiency and achieve greater competitiveness in international markets".

● China, meanwhile, reported its second monthly trade surplus of the year in April. Exports exceeded imports by $450m, but China recorded an overall deficit of $700m in the first four months, with exports down 7.7 per cent to $39.63 on the corresponding period last year.

Imports to the end of April were up 18.1 per cent to $40.3bn, according to Chinese customs statistics.

Tokyo assurance on rates spurs sharp rise in stocks

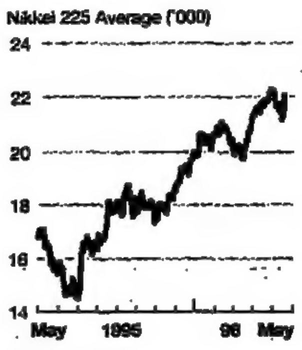
By Emiko Terazono in Tokyo

The Bank of Japan yesterday moved to reassure financial markets that its monetary policy remained unchanged, helping to spur a sharp increase in share prices and a rise in the dollar against the yen.

Investors were encouraged by the assurances of interest rate stability. The benchmark Nikkei average rose 754.92, or 3.5 per cent, to 22,055.97 – regaining the 22,000 level for the first time in two weeks.

Japan

Nikkei 225 Average ('000)



Source: FT Extel

Mr Yasuo Matsushita, the central bank governor, said while Japan's economy was recovering gradually it still needed sufficient monetary support. His remarks come as government and central bank officials are trying to ease interest rate worries.

Mr Matsushita's comments indicated a more cautious stance on Japan's economic recovery compared with remarks he made last month.

At that time he said that interest rates needed to rise in accordance with an economic recovery which had has triggered fears of an early rise in short-term interest rates.

Growing concern over an end to the Bank of Japan's accommodating stance had affected investor confidence on the Tokyo stock market during the past few weeks and had depressed the dollar.

In order to quell such worries, the Bank of Japan earlier this week intervened heavily in domestic money markets, pushing the overnight lending rate to match its record low of 0.39 per cent.

Economists said alarm had been increasing among authorities over financial markets' reaction to expectations of rising interest rates. "The rise in the yen and falling share prices are likely to affect companies' plans for capital expenditure and hiring," said Mr Toshio Koyano, economist at Dai-Ichi Kangyo Bank.

Meanwhile, Mr Ryutaro Hashimoto, prime minister, joined in the concerted effort yesterday, saying that while the economy was gradually improving, the employment situation remained severe.

Other government officials stressed that the central bank's policy of keeping overnight rates below the official discount rate of 0.5 per cent would remain.

Mr Eisuke Sakakibara, director-general of the Ministry of Finance's international finance bureau, told participants at a seminar that the "market may be misreading the situation if it believes that rates will rise."

Remarks by Mr Sakakibara, called "Mr Yen" by currency traders due to his implementation of dollar strengthening measures last year, prompted selling of the yen. The dollar rose above Y106 for the first time since April 26.

Summit boosts Japanese PM

By William Dawkins in Tokyo

A successful US-Japan summit has brought a significant recovery in the domestic popularity of Mr Ryutaro Hashimoto, Japan's prime minister, according to an opinion poll released yesterday.

The survey by the Asahi Shimbun newspaper, not usually a supporter of Mr Hashimoto's conservative Liberal Democratic party (LDP), shows 44 per cent public support for the Hashimoto cabinet, up from 36 per cent in the previous survey in March.

It attributed the improvement to Mr Hashimoto's handling of the summit with US president Bill Clinton last month, when Washington offered to return an airfield on the island of Okinawa to local landowners.

Mr Hashimoto's improved score in the polls increases the LDP's status as the largest party in Japan's fragmented political world, but means it would again fail to attract a parliamentary majority if the opposition brings off its dream of forcing a snap election.

Consolidation of LDP power is widely seen as good for business, at present enjoying an economic recovery, record low interest rates and rising share prices.

A new LDP government would have to form a coalition either with its existing partners, the left-wing Social Democratic party, or with the centre-right opposition New Frontier Party.

Legally, Mr Hashimoto does not have to call an election until July next year, but some senior LDP politicians believe it would be an advantage to hold a poll earlier, while the opposition's popularity is low.

Over the next six months, the government will have to take several decisions likely to arouse opposition.

Hashimoto: 44 per cent public support for his cabinet

First, it needs to obtain parliamentary approval for an unpopular plan to use public money to liquidate bankrupt housing loan companies. Later in the year, it will need to pass judgment on an existing plan to increase sales tax from 3 per cent to 5 per cent from next April. Many LDP politicians would like to delay the tax rise until after an election.

Shortly after taking office in January, Mr Hashimoto was the most popular LDP prime minister in nearly 25 years. But the honeymoon was brought to an end with emergence of the housing loan plan.

Singapore acts on property boom

By James Kynge in Kuala Lumpur

Share prices tumbled in Singapore yesterday after the government announced measures to check property speculation and avoid the type of real estate "bubble" which has hit other Asian economies.

The city state's main share index, the Straits Times Industrial Index, fell 43.67 points, or 1.85 per cent, to close at 2,321.05 after an active session.

Leading the decline was the market's property index, which slumped 5.51 per cent.

The government move is expected to end a sustained surge in the prices of private homes, especially those in prime areas.

What Mr Lee Hsien Loong, the deputy prime minister, described as a "speculative frenzy" will certainly be tamed by the measures announced yesterday. A stamp duty of up to 3 per cent will be levied on all sales of uncompleted residential property. In addition, both sellers and buyers will be required to pay a stamp duty for property sales within three years of purchase.

A sliding-scale tax on capital gains from selling properties within three years of purchase is designed to hit the wealthy harder than the poor and the government will enforce an 80 per cent limit on mortgages. Residential property in Singapore costs about S$1,000 (US$714) per square foot at the top end, against about S$1,500 per square foot in Hong Kong.

The blame for skyrocketing home prices has been laid at the door of foreign speculators. But the new measures, which include a ban on Singapore dollar loans to foreigners for residential property purchases, are unlikely to curb foreign buying. Many of the foreign buyers were wealthy individuals from Indonesia and Hong Kong who needed to borrow little.

Late change of tactics

Dole cranks up troubled campaign

By Jurek Martin in Washington

The C-Span caption last week perfectly summed up stage one of Bob Dole's campaign, which was to run for president from the Senate.

The words flitting across the political cable channel's coverage informed the viewer the US Senate was voting on "the Dole amendment to the Dole amendment", whatever it might have been.

Yesterday, the presumed Republican presidential candidate conceded he could not run for president from the Senate and certainly not from the demanding position of majority leader. History could have told him this was likely: the last senator to graduate directly to the presidency from the Senate was John Kennedy in 1960, and no congressional party head this century has pulled off the trick.

It was a course urged on him by a growing number of Republicans in and out of Congress, increasingly concerned that if he does not soon start reducing President Bill Clinton's 20-point polling lead then Republican control of Capitol Hill and of governorships and state houses across the country will be at risk this November.

But in distancing himself from his home of 27 years, the last 13 of them as Republican leader in the Senate, Mr Dole, aged 72, is taking an equally big gamble. He is rolling the dice that he can match up favourably in head-to-head battle with one of the most adept electoral politicians this country has seen in many a moon. For, whatever else may be said of Bill Clinton, nothing fires him up so much as a campaign.

As the headline over a New York Times column this week by Garry Wills, the eminent historian and commentator, put it: "One sings, the other doesn't." The article concluded: "Mr Clinton's is an entertaining style, but thoughtful. Mr Dole's is moral but boring... Determined idealists might bet on a boring morality... but who will bet there will be enough idealists?"

The Dole gamble, in effect, is to make this election less of a vote on policies, his milieu but a losing proposition so far, and more about character. He will have to do something which he dislikes – talking about himself, where he comes from and what his values are – in order to make the case that he deserves preference over Mr Clinton.

That means, in crude terms, contrasting a distinguished war record against the absence of military service, stressing personal rectitude, age and experience over the president's presumed flightiness, Whitewater included, and pitting conventional small-town conservatism against the sort of big government "tax and spend" liberalism from which Mr Clinton has, at least in part, managed to dissociate himself.

Mr Dole's decision was forced on him by two realities. The first is that Congress, where he hoped to differentiate himself from the president through an ambitious legislative agenda, has sunk into gridlock once more, with Democrats gleefully emulating the tactics Mr Dole himself employed against the Clinton programme in 1994.

The current stalemate, especially over cutting the petrol tax and/or increasing the federal minimum wage, is doing nothing for the reputation of Congress. The transparent "politicking" of the legislature is viewed in the country at large with disfavour, an irrelevance to the real "issues" of healthcare, crime and employment which consume the public.

The second reality reflects this. Mr Clinton's lead is so large, less because of a new national confidence in his abilities but far more because he has succeeded in tarring Mr Dole with the unpopular brush of Speaker Newt Gingrich and his fading radical Republican revolution. At least the majority leader, so the theory runs, can try to make himself free of that particular albatross.

Mr Dole has also taken one other important tactical decision consequent on setting aside his congressional duties. He will not now select a vice-presidential running mate before the party convention in mid-August. An early choice had been considered a live option as a way of generating necessary momentum in the months ahead.

But Mr Dole has now taken on to his own shoulders the responsibility of lifting his campaign out of the trough. It did not, however, begin auspiciously yesterday. His chartered jet was grounded because aviation officials were not satisfied its flight attendants were properly trained.

Balaguer likely to determine his successor

The Dominican Republic election may be decided in a run-off vote, writes **Canute James**

Mr Joaquín Balaguer, who has dominated politics in the Dominican Republic for 30 years, looks set to play a key role in determining his successor as president in today's election.

Public opinion polls suggest that Mr José Francisco Peña Gómez, the candidate of the Revolutionary party, will receive most votes, closely followed by Mr Leonel Fernandez of the Liberation party. Mr Peña Gómez, however, does not appear to be able to secure over 50 per cent of the votes, which he needs for an outright win. In that case, he would face Mr Fernández in a run-off vote in six weeks.

The incumbent Reformist party of Mr Balaguer, a blind octogenarian who has served six terms, is split over support for Mr Jacinto Peynado, who became the party's candidate after a bitter and divisive primary election late last year. Mr Balaguer appears to feel that no other representative of the Reformist party apart from himself is worthy of becoming president. Reformist leaders plan to tell supporters to vote for Mr Fernández in the run-off, to give the 42-year-old lawyer the presidency. Mr Fernández better represents the aspirations of Dominicans, according to a senior ruling party official. Aides to Mr Peña Gómez, who is black, suggest that race is a factor in the Reformists' likely choice of Mr Fernández.

Mr Fernández's victory could prolong the retiring president's influence. But advisers to Mr Fernández say that the Liberation party candidate is his own man, who "will not compromise" on policy. However, the Congress is likely to remain dominated by the Reformist party, and Mr Balaguer this week appointed known loyalists to head the police and the army.

Mr Balaguer was the conservative and pro-US heir to his mentor, the dictator Rafael Leonidas Trujillo, who ran the country from 1930 until he was assassinated in 1961. Pliant legislators allowed him to emulate his predecessor and to rule by fiat. His legacy to the country is in the form of public works – roads, bridges, irrigation works, and the Columbus Lighthouse, constructed over 30 years and at a cost of $100m-$150m, to commemorate the quincentenary of the arrival of the navigator in the Americas.

President Balaguer's retirement from politics, and the calling of the election half-way into his term, follows pressure from the US to reform the politics of the country of 7m people, which shares the Caribbean island of Hispaniola with Haiti.

The president retained office in the 1994 election by a majority of less than 1 per cent. The Revolutionary party said that the presidency was stolen from Mr Peña Gómez, and that there was widespread mismanagement and clear fraud in the voting. Foreign observers to the elections agreed, and the US and the European Union pushed for an early election.


Liberation party men: former president Juan Bosch and Leonel Fernández

There is little difference in the policies being advocated by the three leading contenders. They are all moderates, although the Revolutionary party was strongly social democrat until eight years ago, while the Liberation party was started by Mr Juan Bosch as a Marxist organisation, but now argues for a market economy.

They all support an acceleration of the deregulation of the economy grudgingly started by Mr Balaguer. He has been against the privatisation of state-owned companies, claiming that they serve a "public good".

The priority for his successor will be a rehabilitation of the national electricity grid, probably through some degree of privatisation. Blackouts lasting up to 12 hours have been caused by the inability of the state-owned power company to generate enough, while private suppliers, claiming they are owed millions of dollars by the company, have cut off supplies.

The candidates have also told Mr René Prèval, the new president of Haiti, that they intend to improve relations. A meeting last month of Mr Balaguer and Mr Préval followed many years of strained relations between the neighbours. Although no evidence has ever been presented, Mr Balaguer remains convinced, say some aides, that the US intends to force the eventual unification of the Dominican Republic and Haiti.

The election is taking place amid indications that the economy – based on tourism, sugar, gold and nickel – continues to improve, following expansion by 4.8 per cent last year, a faster rate than that of the previous year. Mr Héctor Valdez, central bank governor, has forecast expansion of 5 per cent this year, and inflation below 7 per cent, which is the rate for the 12 months to the end of March.

The central electoral council said it had tried to prevent a repetition of the fraud and disorganisation which troubled the last election. "Fraud-proof" paper has been used for ballots, the council said. There are fears, however, that more than this might be needed to guarantee a fair result.

Canada toughens stance on Quebec

By Bernard Simon in Toronto

Canada's Liberal government has sought to regain the initiative in the simmering debate over Quebec independence with a series of moves designed to remind the French-speaking province that secession is likely to be neither smooth nor painless.

But the new strategy could carry high risks. Mr Lucien Bouchard, Quebec's separatist premier and by far the province's most popular politician, has accused Ottawa of creating "a prison from which we cannot escape". The federal moves also threaten to deepen divisions over tactics among pro-Canada forces within Quebec.

The latest skirmish follows several months of relative calm on the Quebec front in the wake of last October's independence referendum, which the federalist side won by a razor-thin margin of only 54,000 votes.

Mr Bouchard, who took over as premier in late January, has concentrated on Quebec's economic problems. He has brushed off pressure from hard-line separatists to capitalise on their momentum with another quick referendum.

However, the constitutional issue has been reignited by the federal government's decision to join a legal challenge to secession brought by Mr Guy Bertrand, a maverick Quebec City lawyer.

Mr Bertrand, a former separatist, has asked for a permanent injunction against future referendums that could lead to a unilateral declaration of independence. The government plans to argue in court that Quebec can only secede in accordance with the Canadian constitution, in other words, with the consent of the rest of the country. A referendum would thus not be binding. The case began in a Quebec City court this week.

Mr Jean Chrétien, prime minister, told parliament: "We are saying the laws of Canada must be respected, that there won't be a unilateral declaration of independence and that international law also must be respected".

Mr Chrétien is due to outline proposals for a devolution of powers to all 10 provinces at a meeting with the premiers in late June. The provinces are expected to gain wider jurisdiction over areas such as labour training, forestry and mining.

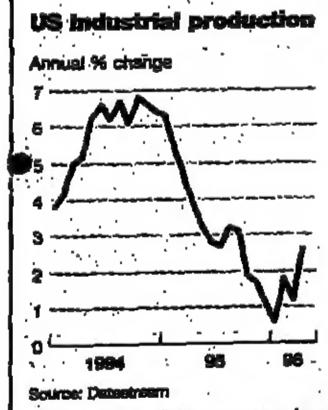
But the court challenge is a sign Ottawa will use every opportunity it can to put Mr Bouchard on the defensive. Earlier this year, Mr Chrétien backed a controversial suggestion by some members of Quebec's English-speaking and aboriginal communities that the province itself should be partitioned if it opted for independence.

Mr Bouchard, who has a reputation as a canny politician, has so far bided his time. He has backed away from threats to call an early election and has left the door open to participate at next month's premiers' conference. But he has continued to hold open the possibility of an election – which his Parti Quebecois (PQ) would almost certainly win – if the court upholds Mr Bertrand's legal challenge.

AMERICAN NEWS DIGEST

Modest growth for US industry

US industrial production



Source: Datastream

Prospects for an early rise in US interest rates receded further yesterday after figures for industrial output reflected modest economic growth and little underlying upward pressure on inflation. The Federal Reserve said total industrial production jumped 0.9 per cent last month, but the rise reflected mostly the resumption of production at General Motors after a strike in March closed most of its plants for three weeks. Excluding the effect of the strike, industrial output would have been flat in April. Analysts said the figures showed that economic growth was advancing at a measured pace.

Markets largely shrugged off the data, on the heels of figures on Tuesday showing only a 0.1 percentage point rise in the "core" consumer price index. *Patti Waldmeir, Washington*

Ecuadorean bank taken over

The Ecuadorean central bank is set to take over Banco Continental after the superintendency of banks removed the president and principal share holder. Mr Leonidas Ortega was removed after indications that the bank had misused loans by the central bank and had realised "fictitious" capital increases. On March 20 the central bank granted Banco Continental a credit of 485,000m sucres ($156.5m) to overcome liquidity problems. In exchange the central bank appointed nine out of 12 directors on the bank's executive board and began investigating capital increases and the use of previous credits. *Raymond Colitt, Quito*

Internet bill welcomed

US telephone companies and online service providers yesterday cautiously welcomed a compromise bill to regulate copyright violations on the Internet, as a House of Representatives subcommittee began the task of preparing the complex legislation for a congressional vote. The legislation, which would shift much of the burden for policing copyright violations on the Internet to the copyright owners, was described by one online service provider as "a step in the right direction, probably several steps in the right direction". But some expressed concern that the circumstances under which an online service provider would be guilty of infringement needed to be more strictly defined. The bill includes an important concession to service providers, stating that they would not be held liable where they were a "mere conduit" for information supplied by others. *Patti Waldmeir, Washington*

Baring denies greed by bank chiefs

By John Gapper, Banking Editor

Mr Peter Baring, the former chairman of the merchant bank that collapsed last year with derivatives trading losses of £830m ($1.26bn), yesterday denied that the bank's management had failed to prevent the collapse because of greed.

Mr Baring told members of the House of Commons Treasury Committee it was "absurd" to suggest that he and his fellow directors failed to uncover Mr Nick Leeson's deception in Singapore because they were happy to accept false profits that would contribute to their annual bonuses. "I do not think we were greedy, stupid or idle." Mr Baring told the committee. He said he and other directors shared the blame for the collapse, but refused to apportion the blame among individuals.

In response to MPs' suggestions that directors might have knowingly concealed Mr Leeson's losses, he said it would have been "grotesquely absurd" for directors to have risked going to jail to raise their bonuses by 10 per cent.

"The senior management would have been out of their minds to try to conceal it," said Mr Baring, who faced hostile and sceptical questions from MPs about his lack of knowledge of the trading operation headed by Mr Leeson.

Mr Baring said he still believed it was possible that Mr Leeson could have had a fellow conspirator outside Barings, a suggestion he first made in an interview with the FT after the collapse. But he had no evidence of that.

Such a conspiracy would not lessen the responsibility of directors. "The issue of whether there was a conspiracy is not important, except to the extent that there may be people out there who have not been caught," Mr Baring said.

Despite being pressed, he refused to say whom he thought most to blame among senior managers. "A number of us must share responsibility," he said. "I believe that all of those concerned have now left the business."

Mr Baring was giving evidence to a inquiry by the committee of MPs into the collapse of Barings, along with Mr Andrew Tuckey, Barings' former deputy chairman. Mr Baring has retired, but Mr Tuckey is still employed as a consultant by ING Barings.

Mr Baring told the committee that he earned £1.4m in 1993 while Mr Tuckey had earned £1.95m. Mr Leeson declared profits equivalent to 9 per cent of the bank's profits that year.

He admitted that Mr Leeson's arbitrage trading on Singapore and Osaka futures exchanges appeared to "defy gravity" but the bank had been accustomed to making big profits in operations that involved relatively little trading risk.

He was worried by Mr Leeson's reported profits just before the collapse because "it seemed to me that it was improbable that the level of profitability could persist," but he had never doubted that the profits were as reported.

ICL consortium wins $1.5bn Post Office contract

By Michael Cassell and Andrew Adonis

The government yesterday stepped up its war on benefit fraud with the award of a contract worth more than £1bn ($1.52bn) to a consortium led by ICL for linking Britain's 20,000 Post Offices by computer.

Mr Peter Lilley, the social security secretary, said the introduction of benefit "swipe cards" to replace order books and girocheques, would help "beat the fraudster".

He claimed the system would transform benefit payments and save £150m a year in fraudulent claims.

The computer network, due to be complete in two to three years, will be the largest of its type in Europe, annually handling 1bn payments collectively worth about £60bn.

The contract is being hailed by the UK Treasury as a critical advance for the private finance initiative, the government's flagship policy for boosting the role of the private sector in public investment.

The project will be phased in nationwide, with all types of social security benefits being transferred to the new computerised system.

It is one of the largest projects yet agreed under the PFI, although severe delays in the contract negotiations have been a source of controversy.

The project, announced on the day that the House of Commons social security committee called for tougher action against benefit fraud, was well received when unveiled by Mr Lilley at the National Federation of Sub-Postmasters annual conference in Eastbourne.

Discussing concerns over the fate of many small post offices, heightened in recent weeks by speculation that the government may revive plans for Post Office privatisation, Mr Lilley said the computer network would help maintain a viable nationwide chain of outlets offering a wide range of customer services.

Mr Richard Dykes, managing director of Royal Mail, said the computer system would be the "single most important boost to the Post Office network in living memory".

Pathway, the winning consortium, includes ICL, the UK-based company owned by Fujitsu of Japan, Girobank, de La Rue, the security printing company, and An Post, the Irish Post Office.

The contract will run for eight years. It will entail the provision of £200m of computer equipment and operating costs of about £1bn over the eight years of the contract. The winners, who beat Andersen Consulting and IBM in the race for the contract, installed national lottery terminals in the UK and a computer network for An Post.

Mr Lilley said that, under the PFI deal, Pathway would be committed to taking "a significant share of the risk" of payment fraud if the new benefit payment system was "cracked".

ICL's senior management, including Mr Keith Todd who took over as chief executive at the start of this year, needed to win the $1.5bn-a-year Benefits Agency and Post Office Counters contract, Paul Taylor writes. The Pathway contract, believed to be the largest of its type in Europe, will help underpin ICL's profitability in the period before an eventual stock market flotation. It also represents an important endorsement of ICL's strategy of focusing on the systems integration and computer services business.

Mr Todd in particular has emphasised that ICL's future depends on winning business as an independent computer services group in competition with companies such as EDS and IBM, rather than as a supplier of its own computer hardware.

ICL and the Pathway partners won the contract against competition from Andersen Consulting and other bidders including IBM.

Defence links set to become closer after Chirac visit

By Robert Peston and John Kampfner at Westminster

President Jacques Chirac of France addressing members of both Houses of Parliament at Westminster yesterday

British involvement in a joint arms procurement agency being set up by France and Germany is likely to deepen after talks in London yesterday between President Jacques Chirac of France and Mr John Major, the UK prime minister.

Both leaders hailed their meeting as a great success, with Mr Major insisting that the "relationship between Britain and France is extremely close at the moment" and Mr Chirac summing up their negotiations as "a real dialogue".

However neither attempted to gloss over their sharp differences on movement towards a single European currency, as Mr Chirac put pressure on the UK to sign up for the project.

In response to the urgings of Mr Chirac for France, Germany and the UK to develop the arms purchasing agency, Mr John Major said that in principle he supported such a move. The idea is that the three countries should work together when making substantial military purchases, in the expectation that this will deliver savings.

The UK agreed in March to work through the agency on an initial contract for the purchase of a multi-role armoured vehicle. Mr Major stressed in a press conference that the two countries had "positive and very detailed co-operation, in defence in particular".

However, Mr Chirac made it clear that in respect of European Union policy, and especially European monetary union, there were sharp differences between the two countries.

In a speech to the joint Houses of Parliament, Mr Chirac acknowledged the British government's concerns but said he remained determined that a single currency must come into affect as scheduled in January 1999.

Britain had "complete freedom of choice", but he urged it to look more to the benefits of a single currency than to the disadvantages. "France wishes Britain to be present in this great endeavour, that is if you consider it in your national interest." Monetary union, Mr Chirac said, was "a very ambitious project, full of uncertainties but full of promise." It would produce more jobs, greater cohesion and give Europe a stronger global role. The new euro currency would match the dollar on world markets.

"France will meet the demands [convergence criteria] and is determined to meet the deadline," Mr Chirac said. Mr Chirac said France was looking to the UK to play a full part in determining the shape of the European Union at the current inter-governmental conference and beyond. Both countries shared a "common destiny" at the heart of Europe.

In the press conference, Mr Chirac said that "you cannot have the future of Europe built without a strong British presence and with Britain being heard".

A government minister described Mr Chirac's speech as "strong on anglophilia but with a little dash of menace."

● A decision by a future British government to join a single European currency would lead to "the biggest transfer of power since the English civil war," Mr John Redwood, the unsuccessful challenger in last year's Conservative party leadership election, said last night. In a debate at Warwick University sponsored by the Financial Times, Mr Redwood said the economic benefits of monetary union were outweighed by the loss of sovereignty and obligations towards poorer regions of the European Union.

Sir Leon Brittan, EU trade commissioner responded by saying that the only threat to European integration was Britain's "lack of self-confidence". He said Eurosceptics were seeking to mask a desire for complete withdrawal from the EU with demands for abolition of the common agricultural policy and common fisheries policy. "There is not the slightest chance of our partners agreeing to that kind of agenda."

Teachers threaten strikes over pupils' behaviour

By John Authers in London

Many harsh winds are blowing through the British public sector. They include tight pay policies; the introduction of private finance into public projects; and alleged underfunding. But nobody has come closer to provoking an all-out strike than two badly behaved schoolboys.

The National Association of Schoolmasters Union of Women Teachers (NASUWT), the UK's second largest trade union for teachers, has twice in the past month threatened to strike if its members are forced to teach pupils expelled from school for disruptive behaviour.

In both cases the pupils had been reinstated by an independent appeals panel which had reviewed the evidence against them. But the teachers, who refused to accept these decisions, won on both occasions, with the municipal authorities eventually allowing the boys to be taught on their own, away from the schools' mainstream classes.

Both cases were attended by heavy press publicity as the boys and their families were identified and their personal histories pored over in public.

But they also identified broader trends. The strike threats were part of the campaign by the NASUWT, which is generally conservative and organised along the lines of a traditional craft union, to overtake the membership of the larger but less disciplined NUT, which is more leftwing and prone to internal division.

Mr Nigel de Gruchy, the NASUWT's general secretary, took a controversial line last year when he said: "If society has a choice between kids being out of school and nicking cars, or in school assaulting teachers and children and disrupting lessons, then it should choose the former."

The case also followed evidence that a growing group of pupils, mainly boys, were failing to gain anything from their education.

In 1993-94, the most recent year for which figures are available, a total of 10,624 pupils were excluded from their schools indefinitely for disciplinary reasons. This might be linked to the growing proportion of pupils leaving school at 16 without qualifications, which rose from 7.0 per cent in 1993 to 8.1 per cent in 1995. The opposition Labour party has already labelled this the "lost generation".

Most importantly, the recent cases highlighted the growing trend of violence in schools. Last December, Philip Lawrence, head of a London school, was stabbed to death by teenagers outside the school gates. The case aroused national grief.

It was not an isolated incident. According to a survey for the NUT, 60 per cent of schools had been vandalised by intruders in the past year while 10 per cent had been subject to arson attacks.

The Department for Education and Employment set up a working group into school security in the aftermath of the Lawrence tragedy. The government will allow schools to bid for the funding necessary to set up closed circuit television systems, while police will have the right to enter schools without the head's permission to search for offensive weapons.

The Labour party, as well as the governing Conservatives, have pledged to introduce stronger disciplinary sanctions including better funded "pupil referral units" (usually known as "sin bins") for those who have been excluded, and powers to exclude children for longer.

UK NEWS DIGEST

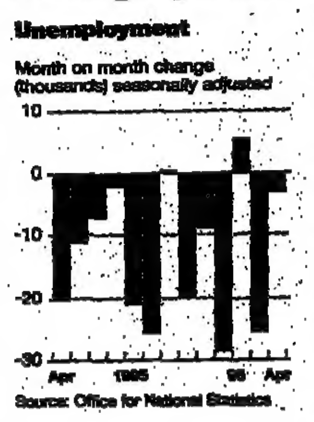
Minister accused on IRA convictions

Mr Michael Howard, the home secretary, was yesterday accused of being "directly and personally responsible" for failing to take adequate steps to prevent the fiasco in which convictions of Irish Republican Army terrorists involved in at least 12 bombing campaigns on the UK mainland have been thrown into doubt. Forensic evidence was found to be contaminated.

Mr Howard revealed in the House of Commons that their convictions could be in doubt after scientists at the government's forensic laboratory discovered traces of a key ingredient of the Semtex explosive used by the IRA in a machine used to analyse samples from bomb scenes and suspects.

The opposition Labour party suggested that the home secretary's failure to establish a body to monitor forensic laboratories, despite considerable pressure from leading judges, had resulted in inadequate scrutiny. The Royal Commission on Criminal Justice in 1993 called on the government to introduce a council to report to the Home secretary on the achievements, efficiency and standards of forensic laboratories. A year later, Lord Taylor, the Lord Chief Justice, said that such a council was "urgently needed". *James Harding, Westminster*

Unemployment figure drops



The number of people without work and claiming social security benefits fell modestly in the UK last month. After adjusting for normal seasonal effects, unemployment fell by 3,200 last month to a five-year low of 2,183,500. But the Office for National Statistics said that a number of special factors had limited the size of the decline. The statistics office estimates that unemployment is still falling at a trend rate of about 10,000 a month as it has done for the past six months or so. Unemployment fell by 5,500 among men and rose by 2,300 among women, leaving 7.8 per cent of the labour force unemployed in April – unchanged on the previous month.

The number of people unemployed for six months or more rose for the second successive quarter in the three months to April, but statisticians said seasonal factors were masking a continued downward trend. Some 56.3 per cent of the unemployed had been without work for six months or more in April, the lowest share for four years. The number of people unemployed for a year or more was 9,700 lower in the three months to April than in the three months to January, taking the total figure to 806,300 or 36.3 per cent of the overall unemployment count. *Robert Chote, Economics Editor*

Average earnings pull ahead

Increases in average earnings are pulling further ahead of rises in taxes and prices, holding out the prospect of improvements in the fabled "feel-good factor". The Office for National Statistics said yesterday that average earnings rose by an underlying 3¾ per cent in the year to March. It also revised up the figure for the previous month by a quarter-point to the same figure. The average family needed an increase in pre-tax income of around 3 per cent over the past year to protect their living standards against tax and price rises.

The unexpected increase in earnings growth surprised some City of London economists, but the Treasury brushed it aside as a small increase from a historically low level. Earnings growth troughed at 3¼ per cent throughout the second half of last year. *Robert Chote, Economics Editor*

Confidence in derivatives 'falls'

Fund managers reported a sharp fall over the past year in the confidence of their trustees and directors in derivatives. The findings came in a survey by Derivatives in Fund Management, a trade publication, in collaboration with Coopers & Lybrand, the accountants, which polled 50 companies which manage a total of $740bn.

Only 24 per cent of respondents reported that directors and trustees took a positive attitude towards derivatives compared with 50 per cent when the survey was last conducted in 1994. The survey also found that a large majority of those polled - 91 per cent compared with 73 per cent in 1994 – had reviewed controls in the last 12 months. *Richard Lapper, London*

Mail monopoly challenged

The Direct Marketing Association is calling on the government to suspend the Post Office's monopoly on letter delivery if postal workers go ahead with a strike. The call comes amid renewed pressure from senior members of the governing Conservative party for the privatisation of the Post Office, and indications that it might be included in the party's election manifesto.

The CWU postal workers' union is currently balloting on strike action over pay and conditions – a result is expected on June 2. If the action goes ahead, it would be the first national postal strike since 1988.

The DMA represents companies which carry out direct marketing, a large proportion of which is by post. In 1995, about 154m orders for goods and services were placed in response to direct mail or mail order catalogues. The Post Office has a monopoly on the delivery of letters costing less than £1 to post. *Diane Summers, Marketing Correspondent*

Insolvency business restructures

Ernst & Young, the UK accountancy firm, is to centralise its insolvency practice. About 375 staff and 30 partners will now be organised nationally instead of within local practices. "The changes to our structure are designed to enable us to serve the banks better," said Mr Alan Bloom, head of insolvency and recovery services. Last year revenues from insolvency were around £30m ($45.6m) at E&Y compared with £45m at the height of the recession. E&Y have picked up a string of key appointments in insolvency in recent years – including Barings, Canary Wharf, and British and Commonwealth. *Jim Kelly, Accountancy Correspondent*

EU meeting suggests beef ban will be eased

Financial Times Reporters

The European Union is expected to ease the worldwide ban on British beef products on Monday after European veterinarians yesterday made progress on agreeing the conditions the UK government had to meet before the embargo was lifted.

The EU's standing veterinary committee suspended until Monday talks on plans to lift the EU-imposed ban on British gelatine, tallow and semen. After an all-day session, only a few countries, including Germany and Austria, remained clearly opposed to easing the embargo.

However, the failure of the EU vets to reach agreement yesterday is a disappointment to the government, which thought it had secured enough support to secure an immediate lifting of the export ban on tallow, gelatine and semen.

Mr John Major, the UK prime minister, will now face intense pressure from some Conservative MPs to take some form of retaliatory action, and options will be discussed at today's cabinet meeting.

But Mr Douglas Hogg, the agriculture minister, is expected to argue that ministers should avoid raising the political temperature before Monday's crucial EU agriculture council. There is understood to be growing support in the British government, however, for a move to ignore the EU ban on selling British beef to third countries.

Mr Franz Fischler, the European commissioner for agriculture, said he was "optimistic about a positive outcome" since "substantial progress" had been made yesterday. "The meeting was suspended because further discussions were needed."

Mr Keith Meldrum, the British government's chief veterinary officer, said he was "very optimistic about Monday. We had a good meeting."

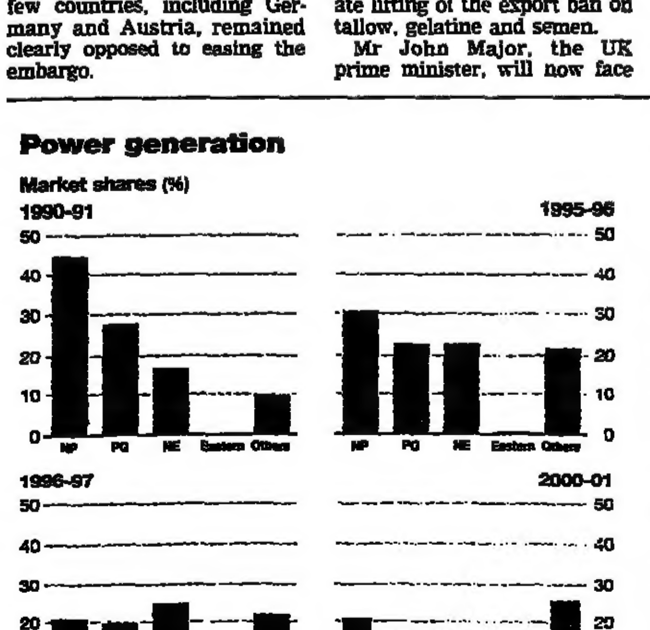
Mr Jacques Chirac, French president, speaking about the beef issue in London yesterday, said: "I think the British government has done everything to convince the commission and the EU of the need to have a plan which in the long term and without risk restores faith in beef."

Asda, the UK's fourth largest retailer, banned all beef from other countries from its stores yesterday in a high-profile move to support the British industry. It came as J.Sainsbury joined other supermarkets in saying it would boycott abattoirs involved in the government's culling scheme, Deborah Hargreaves writes.

Mr Archie Norman, the Asda chief executive, said: "British beef is the best and safest in the world and our shoppers want to buy it." He told the industry to "stop squabbling and whingeing and get on with giving customers what they want." The company accused other retailers of trying to score "cheap PR points" by boycotting suppliers involved in the confidence boosting measure of killing cattle aged over 30 months. Somerfield, Safeway and Tesco have said they will not use abattoirs involved in the cull.

Power generation

Market shares (%)



Source: PowerGen from MMC data

Minister's decisions on bids baffle power industry

By Simon Holberton in London

Mr Ian Lang, trade and industry secretary, is not popular with the leaders of Britain's power industry. Many people have been confused by his recent decision to block bids by two of the industry's biggest players, and by his statement last week that he was dissatisfied with the level of competition in the industry.

Mr Lang has always said he would make decisions about changes in the industry's ownership "on their merits" and in light of consumer interests. Now he has rapidly rewritten the rules of the game in the power industry. Three weeks ago he went against the advice of the Monopolies and Mergers Commission and of his own officials when he blocked National Power's agreed bid for Southern Electricity and Powergen's bid for Midlands Electricity. National Power and PowerGen are privatised generating companies and Southern and Midlands are regional suppliers of electricity. Last year Mr Lang allowed Scottish Power, an integrated power producer, to acquire Manweb, a regional supplier of electricity.

Two weeks ago he reminded investors that the government held a "golden share" in both generators and would not be prepared to see their ownership change until there was more competition in electricity generation. This killed off a mooted bid by Southern Company, a big US utility, for National Power.

Last week Mr Lang reinforced his message by saying: "Unless competition has become fully established . . . it can be necessary to take steps to ensure that the process of change is not snuffed out before it has developed a robust structure that will develop benefits to customers."

Although his remarks were presented as an attempt to clarify policy, many in the industry feel they have not. Some critics including Mr Dieter Helm of Oxera, a consultancy, believe competition policy has been jettisoned. "The real reason for blocking the bids was Southern Company," said Mr Helm. "It is *ad hoc* decision-making." He points out that the submission by Mr Lang's own ministry to the commission's inquiry supported the National Power/Southern and PowerGen/Midlands mergers.

Mr Ed Wallis, chief executive of PowerGen, is delaying the sale of 2,000MW of generating plant to Eastern Electric, a regional electricity supply company, pending clarification from the authorities. "What we want is a further discussion with the Department of Trade and Industry, the Office of Fair Trading and Offer [the industry regulator]," he said.

What still clearly rankles is that by 2000 PowerGen may have a market share of 17 per cent of generating capacity in England and Wales and not be able to own a regional supplier, while Eastern, which will have a 12 per cent market share, will own the biggest of the regional suppliers.

National Power now owns 34 per cent of the generating capacity in England and Wales and PowerGen has 28 per cent. Combined market share has declined from 78 per cent at the time of privatisation in 1991.

More important than the absolute share of generating capacity is both companies' ability to set the price of electricity. Last year, according to the head of one regional electricity company, they set the price of electricity 85 per cent of the time.

Under pressure from Offer, the industry regulator, National Power and PowerGen agreed to sell 6,000MW of generating capacity. Eastern Electricity successfully bid for the 6,000MW, with 4,000MW coming from National Power and 2,000MW from PowerGen. The Office of Fair Trading has said it will examine the transaction. "In 1995, the plant they are selling Eastern set prices 15 per cent of the time," said the chief executive of a regional electricity supply company.

Professor David Newbury of Cambridge University, and an expert on electricity privatisation, said the industry's current problems stemmed from its imperfect privatisation five years ago. "With hindsight we should have done it differently, but the fact is we didn't," he added. "So then, the question is what do we do starting from here."

He believed that the idea of splitting generation from supply should be tested, but that would not be possible until after 1998 when full competition came to the supply of electricity for households. That will also coincide with a period of replacement of old generating plant. "The crucial thing will be who gets to build it," says Prof Newbury. "If it's National Power and PowerGen, then competition has not worked."

Lex, Page 17

Cinema/**Nigel Andrews**

Dangerous flirtations

KIDS
Larry Clark

BLUE IN THE FACE
Wayne Wang

MONEY TRAIN
Joseph Ruben

ROUGH MAGIC
Clare Peploe

FRANKIE STARLIGHT
Michael Lindsay-Hogg

Films which stand up and cry "Controversy!" instead of provoking resonant debate often get lost in the quick-response *crossfire* between detractors and defenders.

After months of delay by our censor, preceded by brouhahas in America, Larry Clark's tale of sex and drugs among the underaged, *Kids*, can finally be seen on British screens. Or can it? We are not talking about Warner's refusal to show the film in any of its UK cinemas. (Plenty of less pompous distributors are left to screen it.) We are asking whether *Kids* the movie really exists any more, if it ever did, as a separate entity from *Kids* the furore.

Clark found fame in America as a photo-chronicler of deprived and mixed up youth. In works like *Tulsa* and *Teenage Lust* he recorded their faces and figures in a bleak, probing, for some voyeuristic style that carries over now to his first feature.

The kids in *Kids* are mostly so zonked that they stagger from bed to bed, party to party, drug tryst to drug tryst, while the camera pursues them in shakiest cine-vérité style. We begin with a long sucking kiss, followed by sex action, between two teenyboppers. We end with a drugged, HIV-infected girl (Chloe Sevigny) – *faute de meilleures* the central character – being unresistingly "raped" by a casual party guest. In between the film squeezes in any number of candid vignettes (or prurient according to your viewpoint), while affecting to expose the characters' dangerous flirtations with love and death.

Some of these vignettes seem more gratuitous than others. Clark loves watching kids urinate, for example, though it is unclear what social or moral dysfunction this represents. Clark also spends loving minutes on a swimming pool scene in which we and the bathers ogle a wet-kissing session between two girls.

The film's script is credited to the majestically named Harmony Korine, a real 18-year-old street kid. Yet the most notable characteristic of *Kids* is that there seems to be no script at all. Accompanied by the kind of intrusive soundtrack that used to signal artistic integrity in 1960s radical documentaries – traffic noise, street babble – the plot shuttles haphazardly between street scenes and interiors, between action and talk, throwing in much stream-of-semiconsciousness dialogue that sounds to my suspicious ears largely improvised.

Whenever Clark slows the film for a moment of sociological solemnity, things get worse. We begin to discern the dramatic hollowness of the whole enterprise. A pivotal scene in which a leading character is told she has Aids is so stiltedly shot and performed that it could *come from* a government health commercial.

It suggests that Clark cannot direct actors except when they are left to direct themselves. It also suggests that his interest is less in pausing to question the Gadarene rush of modern youngsters towards self-destruction than in getting on with the next graphic image of that rush, and the next exciting view from vice-and-sensuality clifftops.

★

The most dangerous sentence in the English language is "We can do you two for the price of one." Why can they? What scam are they pulling and what quality or qualities are they skimping?

In Wayne Wang and Paul Auster's *Blue In The Face* they are skimping on wit, invention and purpose. Made back to back with the duo's viewer-friendly *Smoke*, that blithe comedy of cigar stores and pipe dreams, *Blue* is set in the same corner tobacconist in Brooklyn, flung open as before to all waifs and strays by owner Harvey Keitel. But the film was made as an afterthought to its precursor and feels like one.

Rashly, the cast list has been flung open too. Wang and Auster fill their unscripted yarn feast with every passing showbiz celebrity from Roseanne to Madonna, via Jim Jarmusch, Lily Tomlin, Lou Reed and Michael J. Fox. These all pretend to have spilled in off the street with their woes, jokes and anecdotes: which is somewhat like asking us to believe that the folk on Oscar night have just tumbled by accident into the Dorothy Chandler Pavilion.

After *Smoke* the wit level plummets from ten to one and a half, with Roseanne notably ghastly as a loud wife wanting to escape to Las Vegas. ("Escape, escape," we urge.) The movie would be unthinkable without Keitel, who must have wondered if his filmography would not be a lot more thinkable without it.

Money Train is another sequel of sorts, and another sort of calamity. After the springheeled shenanigans of *White Men Can't Jump*, Woody Harrelson and Wesley Snipes re-team as two policemen pursuing a serial killer – yes, another one in modern cinema's unrelenting procession – through the New York subway system.

The dialogue is largely of the "You go that way, I'll go this way" variety. Meanwhile the plot itself goes nowhere. The film won notoriety in the US for a brief outbreak of copycat killings involving fuel squirted and ignited through ticket windows. Despite public protests Columbia refused to withdraw the film, probably rightly; though taking into account its dim box office performance they may have wished they had never released it in the first place.

Clare Peploe's *Rough Magic* takes its title from Shakespeare, its plot from James Hadley Chase and its style from too many sources to count. Everyone is chasing everyone else, with murder-witnessing magician's assistant Bridget Fonda showing a fine pair of heels to a fine pair of heels (Russell Crowe, Jim Broadbent) as she flees to Mexico to find justice, to encounter love and to escape the creeping corruption of post-war Republican America. At least I assume this last theme, though tokenly raised, is why we have a glimpse of Nixon's "Checkers" speech on TV.

A talking dog, a man who turns into a sausage and a girl who vomits out her heart are just three of the items worth issuing customer warnings about. The film tries to be playful and postmodern. But as with this British director's last and marginally better film *High Season*, the final impression is of over-anxiety: of a movie wanting to please the intelligentsia while keeping the popcorn-chewers on board at the same time.

In a grim week *Frankie Starlight* competes with the grimmest. It sounds like a film Werner Herzog should have made. Hopping from longitude to longitude, he might have looped some communicable magic around the tale of a poet-midget born to a moment of joy between an American sailor and a French girl (Anne Parillaud) during the second world war. Later he is raised in mystical old Ireland, where stargazing, verse-writing and minor miracle-working are all on the existential menu.

The script tries to cull the good bits from Chet Raymo's novel *The Dork From Cork*. But any film that can jettison that title for its anodyne movie replacement has no sense of wit or humour. Michael Lindsay-Hogg vacantly directs while Gabriel Byrne and Matt Dillon (as a "Well, jeez" cliché American) are among the acting talents embarrasedly squandered.

'Kids': a Gadarene rush of youngsters towards self-destruction via sex and drugs

Music in London/**David Murray**

Sunday on the South Bank with Claude

You might think that Debussy stands in no need of rediscovery. Are not *L'Après-midi* and *La Mer*, the orchestral *Nocturnes* and *Images* and his string quartet, as well entrenched in the repertoire as any music since the 1890s? Somehow, though, we hear much less now of his smaller-scale works, especially the rich trove of songs and piano pieces, in which much of the best of him is to be found.

On Sunday Roger Vignoles, one of our most admired accompanists, set out to redress the balance. He had devised "a day-long Debussy experience" in the South Bank's Purcell Room. In five sessions we heard 30-odd songs from early to late (out of a total of perhaps 90), 11 piano pieces from all the main sets, the three late chamber sonatas and some extra bonbons.

The little hall was sold out, and there was general delight – among those who got in. It was the third or fourth time this season that the Purcell Room has proved too small to contain the eager audience for something of great interest. We badly need a middle-sized venue on the South Bank.

Vignoles himself introduced all the songs and chamber sonatas with apt observations and Roger Nichols did as much for the piano music. But these were not really pedagogical sessions: the music was the thing, and Vignoles had rounded up some capital musicians to perform it. The outstanding ones were French – the baritone François Le Roux, the wonderfully accomplished young soprano Véronique Gens – or at least French-Canadian: the brilliant verve of Jean-Guihen Queyras in the cello sonata marked him instantly as a performer we want to hear again and again.

Le Roux sang the late song-triptychs (after Mallarmé and Villon, truly visionary stuff) with all the subtle, cultivated authority that they require. Miss Gens' liquid, unforced delivery was enchanting in the early songs, perhaps a touch too languid – more rhythmic grip would have been welcome; but she and Vignoles gave a luminous account of the *Chansons de Bilitis*, so breath-stoppingly erotic that (as Vignoles told us) Debussy was anxious to be sure that their first interpreter was under 20, and would therefore not understand them.

Peter Donohoe's solid, uncompromising pianism was a mixed blessing in the piano music. There was a seriously interesting idea or two in almost every piece, and moments of real finesse; but his style can be beefy, and sometimes was, where Debussy's never is. I was perhaps disproportionately irritated by his opener, "La soirée dans Grenade": Debussy's meticulous pedal-markings for the remote, rapt introduction are surely designed to preclude just what Donohoe did, which was to hold the pedal down to the floor and make a broad, pseudo-Impressionist smear of it all.

Philip Dukes and Emily and Catherine Beynon were mellifluous and well-bred in the sonata for viola, flute and harp. There are moments of sudden brightness and *élan* in this music that they have not identified yet. In Debussy's last work, the violin sonata, the greatly talented Stephanie Gonley wielded a smallish tone (something about her posture and the angle of her bowing-arm signals that it *will* be a smallish tone, even before she starts playing) – but also such imagination, pounce and spunk that we hung upon every phrase.

One minor cavil about this whole, scrupulously planned sequence: why include Debussy's one painfully embarrassing song, the mawkish "Noel des enfants qui n'ont plus de maisons" of 1915? It was an understandable response to Boche brutalities in Belgium, but it is the sole piece of the composer's maturity that one fervently wishes never to hear again. Never mind; the programme was crammed with rewards, many of them new to many of the audience, and we were heartily grateful for it.

Plymouth wins the RSC

The RSC has selected Plymouth as the location of its new residency. It will perform a four week season there from October 1997.

The company caused a shock last year when it announced that it was quitting its London home at the Barbican for the six summer months from 1997. Director Adrian Noble said the RSC wanted to tour more, to bring its plays to the people in the regions and abroad.

It received many approaches from cities eager to play host. Fourteen venues were visited; a short list of three – Norwich, Cardiff, and Plymouth – was studied in depth, and Plymouth, in the drama starved south west, won out.

A package of 12 plays will be presented, with four Shakespeare productions at the Theatre Royal, four works from the Stratford Swan season at the Pavilions leisure complex, and four from the Other Place at the small Drum auditorium. The RSC is seeking £150,000 in sponsorship to ensure that it can hold its traditional educational and outreach workshops in the city.

The Theatre Royal is a successful theatre and the local council is financially supportive: box office receipts are likely to approach the 93 per cent capacity the RSC achieved this year at its other regional residency, Newcastle.

The company will visit Plymouth after Newcastle, where it will now play its five week season in September-October. In effect the summer at the Barbican will not be replaced. There will be the usual RSC seasons at Stratford on Avon, and more touring in the autumn and winter. The actors will no longer be expected to make a two year commitment to the RSC, and their work load will be less burdensome.

Antony Thorncroft

Alastair Muir

Derbhle Crotty: riveting

Theatre/**Sarah Hemming**

Dysfunctional family life

Imagine a play written to commemorate the centenary of a maternity hospital and you certainly would not anticipate *Portia Coughlan*, Marina Carr's strange, bleak, haunting play commissioned by the National Maternity Hospital, Dublin, and now moved from the Abbey Theatre to the Royal Court. Written from the very spot where lives begin and families are born, the play broods on death and loss and on the poisonous nature of family life at its most destructive.

Carr takes the sort of dark, bloody knot that is the basis of many a Greek tragedy and transplants it to rural Ireland. Portia Coughlan is one half of twins – the remaining half, since her brother, Gabriel, drowned when they were both 15. But now, aged 30, Portia is far from over his death. She seems obsessed, possessed even, by the spirit of her dead twin, egged on by memories of him to despise her rich, crippled husband, fine home and three sons. She haunts the edge of the river where he lost his life, conducts self-destructive affairs and turns the same fierce loathing on everyone in her life – including herself.

It is clear from the outset that Portia, half in love with death, is drifting fast towards disaster. Gradually, it becomes clear that her fate has long been mapped out, that she is living out the legacy of a terrible family secret. Meanwhile, all those around her seem unable to prevent her self-destruction. Carr portrays a small, ingrown community and a family so dysfunctional that everyone is rancid with grief or bitterness and any encounter turns into a dogfight.

It is a profoundly atmospheric play and sucks you into Portia's pitiful, half-living state of mind. But it remains very much on one note and some of the characters are under-written. While at times the play reminds you of Lorca, it also sometimes veers perilously close to *Cold Comfort Farm*. As yet another character appears who is either on the make, on the bottle or on the game, you begin to long for some sane figure to walk on stage and give everyone a good slap – most of all Portia.

Garry Hynes' moody, sepulchral production, staged against a surreal, glittering background to represent the water that lures Portia on, does not always help. But Marina Carr can certainly write. She also comes up with several marvellous characters, all excellently played here: Portia's squeezed-empty husband (Sean Rocks); her grief-raddled, weak father (Tom Hickey); and her tart-with-a-heart aunt (Stella McCusker) – and she creates some deliciously black scenes and wicked one-liners. Derbhle Crotty, meanwhile, is riveting as Portia: ashen-faced and tousle-headed, she blazes with energy and despair yet, with her pliant body language, somehow looks like a rag doll that has been carelessly hurled away.

It is a bold, unsettling play, cleverly structured and driven by fierce rage. Somewhere along the line it loses you, but there is no doubt that Marina Carr is a playwright to watch.

Continues at the Royal Court, London SW1 (0171-730-1745).

INTERNATIONAL
ARTS
GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Nederlands Kamerorkest: with conductor Philippe Entremont and pianist Andrei Gavrilov perform works by Mozart and Schoenberg; 8.15pm; May 18, 19 (2.15pm)

■ BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-3-3291909
● Alain Fleischer. Photographs: this exhibition of photographs by Alain Fleischer forms part of the Primavera Fotográfica. After studying literature at the Sorbonne, Fleischer became fascinated by the world of films, where he was to work professionally and more or less uninterruptedly since making his first feature film in 1968. His photographic work demonstrates the artist's desire to avoid limiting himself to a single artistic discipline. Coinciding with the exhibition a cycle of Alain Fleischer films is being shown; to Jun 16

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Berliner Symphoniker: with conductor Alun Francis and pop group Gang of Wrath perform works by Mozart and Middeler/Francis/Willing; 8pm; May 18
OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Martha oder Der Markt zu Richmond: by Von Flotow. Conducted by Hans Hilsdorf and performed by the Deutsche Oper Berlin. Soloists include Amanda Halgrimson and Friedrich Molsberger; 7.30pm; May 19

■ BOSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-617-267-9300
● Lithography's First Half Century: The Age of Goya and Delacroix: in celebration of the 200th anniversry of the invention of lithography by Bavarian actor and playwright Aloys Senefelder, the exhibition examines lithographs by artists such as Delacroix and Goya. Works by lesser known artists and prominent artists not usually associated with the medium are also displayed; to Jul 7

■ CAPE TOWN

DANCE
Opera House Tel: 27-21-215470
● Raymonda: a choreography by Norman Furber to music by Glazunov, performed by the Capab Ballet and The Cape Philharmonic Orchestra. Soloists include Lee, Joubert and Hodges; 8pm; May 17

■ COPENHAGEN

DANCE
Det Kongelige Teater
Tel: 45-33 14 10 02
● Maurice Béjart Ballet Lausanne: perform Maurice Béjart's choreographies L'Art du Pas de Deux and Firebird; 8pm; May 17, 18

■ HELSINKI

DANCE
Opera House Tel: 358-0-403021
● Helsinki Ballet: perform the choreographies Etudes by Lander to music by Riisager, Forgotten Land by Kylian to music by Britten and The Second Detail by Forsythe to music by Willems; 7pm; May 18

■ LAUSANNE

EXHIBITION
Fondation de l'Hermitage
Tel: 41-21-3205001
● Cartier, Splendour of Jewellery: exhibition of a selection of items from the Cartier Collection. The display retraces the evolution in the Cartier style from its beginnings in 1847 through to today; to Jun 16

■ LEWES

FESTIVAL
Glyndebourne Opera Festival
Tel: 44-1273-812321
● Glyndebourne Festival Opera: this year's edition of this prestigious annual opera festival, initiated by John Christie and his wife, soprano Audrey Mildmay, features 74 performances of six operas: Handel's Theodora, Berg's Lulu, Tchaikovsky's Eugene Onegin, Rossini's Ermione, R. Strauss' Arabella and Mozart's Così fan tutte. The London Philharmonic continues as the festival's resident orchestra, playing for all performances except Theodora, for which the Orchestra of the Age of Enlightenment returns; from May 17 to Aug 25

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● The Royal Philharmonic Orchestra: with conductor Marek Janowski and pianist Peter Jablonski perform works by Sibelius, Grieg and R. Schumann; 7.30pm; May 18
Queen Elizabeth Hall
Tel: 44-171-9604242
● The Nash Ensemble: with conductor Daniel Harding, soprano Catherine Dubosc, pianists Yvonne Loriod and Ian Brown, violinist James Clark, clarinettist Michael Collins and cellist Christopher van Kampen perform works by Debussy, Ravel and Messiaen; 7.45pm; May 17
EXHIBITION
National Gallery
Tel: 44-171-7472885
● Velázquez and Bacon: Paintings of Popes: the loan of Velázquez "Portrait of Pope Innocent X" from the Doria Pamphilj Gallery provides the opportunity for a unique confrontation. Over a period of more than 20 years Francis Bacon painted a series of images derived from Velázquez's masterpiece. Four of these pictures are in British collections and now for the first time these are shown with the Velázquez portrait that inspired them; to May 19

■ MADRID

EXHIBITION
Fundación la Caixa
Tel: 34-1-4354833
● El grupo CoBrA en la colección del Stedelijk Museum de Amsterdam: exhibition of some 80 paintings and sculptures by members of the Cobra artist group. The works come from the collection of the Stedelijk Museum in Amsterdam; to Jun 30

■ NEW YORK

AUCTION
Sothebys Tel: 1-212-606-7000
● European Furniture from the Estate of Lita Annenberg Hazen: Mrs Hazen maintained elegant homes at the Pierre Hotel in New York and in Los Angeles. In these residences the French and Italian Neoclassical furniture was often upholstered to coordinate with the paintings in her collection; 10.15am & 2pm; May 17
CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Jeanny Lee: the pianist performs works by Tchaikovsky, Paganini, Gounod and Liszt; 8pm; May 17

■ PARIS

EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33
● Picabia 1922: this exhibition is a reconstruction of the exhibition organized by Francis Picabia, one of the pioneers of Dada, in the Galerie Daimau in Barcelona in 1922. The display shows some 30 works, including gouaches and water-colours; to Jul 1
Musée d'Orsay Tel: 33-1 40 49 48 14
● Offenbach: exhibition examining the success of composer Jacques Offenbach (1819-1880) at the end of the 19th century. The exhibition comprises 250 objects from public and private collections, including paintings, sculptures, costume models, posters, photographs, ceramics and pieces of scenery, introducing Offenbach, his collaborators and interpreters; to Jun 23

■ ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Orchestra dell'Accademia di Santa Cecilia: with conductor Daniele Gatti and soprano Amanda Roocroft perform works by J.S. Bach, Beethoven and Mahler; 7pm; May 18, 19 (5.30pm), 20 (9pm), 21 (7.30pm)

■ STOCKHOLM

OPERA
Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300
● Madama Butterfly: by Puccini. Conducted by Niklas Willén and performed by the Royal Swedish Opera. Soloists include Sara Olsson, Inger Blom, Carina Morling and Esaias Tewolde-Berhan; 7.30pm; May 18

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WORLD SERVICE

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FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

09.00
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Peter Martin

In, out, shake it all about

As businesses contract out more of their non-core activities they are being forced to confront the question of what exactly they exist to do

On the face of it, J.P. Morgan's $2bn, seven-year deal to transfer half its computer staff to outside suppliers is a clear case of outsourcing.

No it isn't, says Peter Miller, co-head of global technology at Morgan. In fact, he says: "This isn't 'out-anything'."

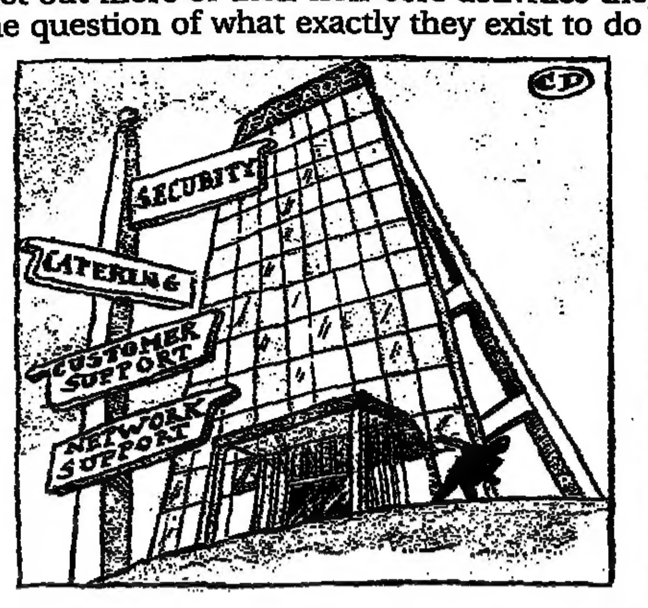
His rejection of the label doesn't just stem from the way it has become unpopular shorthand in the US for wage and staff cuts. It also reflects the debate that surrounds the issue in big companies as they re-examine what they do – and why they exist.

Outsourcing is usually understood to mean that a company is getting out of some part of its business, says Mr Miller, "and we're not getting out of the technology business – it's so important that we're asking how can we do it better than anyone else".

Whatever it calls it, Morgan is handing over responsibility for about a third of its $1bn of annual technology spending, and 900 staff, to a grouping of computer service and telecoms companies. Over the life of the contract, it expects to save 15 per cent of the money it would have spent on this technology. More important, says Mr Miller, the bank will benefit from its suppliers' depth of expertise, freeing its own people to focus on the areas most important to creating competitive advantage.

Others have reached the same conclusion. The Outsourcing Institute, a trade body in New York which is less coy than Morgan about terminology, says that US outsourcing spending will reach $100bn this year. Some $40bn of that is in the information technology area. Another $30bn is in distribution, property and plant management, and other "blue-collar" areas. The remaining $30bn comes under administration, personnel, customer service, finance, sales and other "white-collar" activities.

In the UK the government yesterday handed responsibility for computerising welfare benefits to a private-sector consortium. And in the private sector a forthcoming study by PA Consulting* suggests that outsourcing is no longer confined to areas such as catering, security or computers. A survey of several hundred British companies shows them already outsourcing a quarter of their budgets for what they define as their key business processes.



As it becomes easier to outsource huge areas of what were once seen as a company's essential activities, managers have to decide what exactly their businesses exist to do. Frank Casale, executive director of the Outsourcing Institute, sees this process as the reinvention of a century-old business model.

A hundred years ago American industry led the way in shifting from an "atomistic" model of business, in which there were many collaborating layers of production and distribution, to one dominated by huge vertically integrated companies.

The new giants came into existence to solve the co-ordination problem: they were the most effective way of ensuring reliable production and distribution of goods to the new national markets. They were also cheaper: they squeezed out the costs of the many individual component producers, sub-assemblers, wholesalers, brokers and intermediaries previously needed. By operating nationwide, they gained huge economies of scale.

Outsourcing represents perhaps the first real change to this model. In principle, it allows the creation of the "hollow corporation", one in which a small core of strategists supervises services bought in from external designers, contract manufacturers, third-party sales and distribution networks, and suppliers of accounting and administrative services. More realistically, it allows a giant company to offload much of the burden of its size by outsourcing less important activities but retaining tight control of those activities vital to its competitive success.

Is this new model a response to genuine changes in the real world – or is it merely a fad, a rhetorical cloak for the breaking of implicit contracts with staff? Too often, it is true, the outsourcing is motivated by a desire to escape the costs of existing staff, as in the case of the US airline which replaced check-in clerks earning $19 an hour with contracted-in workers earning $9 an hour. Or it is a response to past management failure: a quick way of fixing a problem that should have been addressed before.

But the impetus behind outsourcing goes beyond such short-term considerations. Arguably, it is in part a correction of a past preference for gigantism that is hard to justify on economic grounds. As business gets more complicated, the need to shed responsibility for peripheral activities gets stronger. "You can no longer afford to passively own and operate a mailroom, a human resources department, a benefits management team or desktop computing support," says Mr Casale.

This belief goes along with an increased emphasis on financial measures that reveal how much value the company is adding. And it is made feasible by a number of practical developments; telecommunications and computers, obviously, but also legal and contractual frameworks such as agreements on what level of services will be provided. Most important, perhaps, is a supply-side phenomenon: the growth of an industry of outsourcing companies. In the oil industry, where there have long been independent exploration and drilling contractors, outsourcing is a natural part of doing business. Now the same trend has come to other industries.

But how does the new business model solve the problem the old one came into existence to tackle, co-ordination? Answer: with difficulty. The PA Consulting study shows that, while most companies are satisfied with their outsourcing agreements, they are unhappy about how their suppliers work together. In the J.P. Morgan case, the four suppliers are committed to a formal alliance, with a central management team and a lead contractor.

A broader solution to the co-ordination problem is to think in terms of outsourcing processes rather than functions. John Little of PA Consulting says: "Instead of saying, let's outsource our fleet of delivery vehicles, companies say: what we should be outsourcing is our delivery process, including all the functions that go with that, such as information technology, vehicles, etc."

The solution to these practical problems, the consultants say, is to think big when planning outsourcing. Devote top-level management resources to the issue, make outsourcing decisions for strategic rather than tactical reasons, go for a few important relationships you can influence rather than lots of short-term ones you end up walking away from. The grander the approach to outsourcing, however, the more pressing the fundamental question: what is the company's real role? What is it, in other words, that it would not consider contracting out?

The PA Consulting study shows only three activities that more than 35 per cent of the companies in the survey regarded as "core": business strategy; information technology strategy; and new product development. Everything else – including research and development, customer handling and finance and accounting – was regarded as non-core by two-thirds of the people surveyed. Even that measure may underestimate the extent to which some institutions are prepared to consider outsourcing. One UK commercial bank quoted in the PA study says: "We distinguish between what is core and what is strategic. An outsourced activity may be core but not strategic."

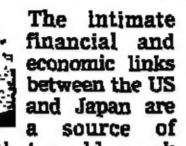
Whatever definitions you use, and whatever name you give to it, the process of outsourcing is forcing managers to confront an issue they have not had to think about for a century: What is their company's real role? It may throw up some uncomfortable answers.

1996 International Strategic Sourcing Study, PA Consulting Group, London. Tel: +44 171 730 9000

BOOK REVIEW • William Dawkins

THE WEIGHT OF THE YEN: By R. Taggart Murphy
Norton, $25, 352pp

Dangerous paradox of Japanese power



The intimate financial and economic links between the US and Japan are a source of instability that could wreck their alliance unless they are tended more carefully.

That warning might sound extreme, but it is a conclusion of this cogent examination of the economic contradictions in the US-Japan relationship by R. Taggart Murphy, a former Tokyo investment banker.

He claims the price of financial interdependence has been heavy for both sides: on the US side, a high budget deficit and weakened industrial base; in Japan, a weakened financial system and the continued subordination of individuals to the state.

The seeds of this situation were sown soon after the election in 1980 of Ronald Reagan as US president. Since he failed to make inroads into public spending, he was forced to resort to higher government borrowing to keep his promise not to raise taxes.

Japanese investors were encouraged by their government to buy US treasury bonds – as were Tokyo's financial institutions, which were advised it would be in the national interest. The finance ministry was happy to ensure that the money was lent, to support the US economy's appetite for Japanese exports.

At first, it was a cosy arrangement, beneficial to both sides. Japanese companies earned dollars by selling to the US. Their banks and insurance companies lent those export earnings back to the Americans. The dollar rose, ensuring an exchange rate profit for Japanese investors.

But this interdependence created a paradox. It could work only as long as Japanese companies continued selling to a fast-growing US economy. Yet their very success was eroding corporate America's strength.

"By propping up American buying power for a decade and a half, Japan's administrators managed to side-step a contradiction at the heart of their methods: that they depended upon the security and monetary arrangements provided by a foreign country whose strength was being undermined by Japan's success," says Murphy.

The 1985 Plaza Accord was an attempt to redress the balance by bringing down the dollar and so helping US companies' export competitiveness. But it succeeded all too well, by creating the conditions that blunted the Japanese willingness to lend to the US.

The post-Plaza rise of the yen and the Bank of Japan's decision to pump cash into the economy helped fuel the explosion in Japanese asset prices that was the bubble economy of the 1980s. And when that burst, Japan's willingness to prop up the US economy withered. Investors had to sell dollar assets to cover domestic losses and the flood of money back to Japan gave a further boost to the yen that worsened the recession.

This forced companies to sell dollars even faster until the US currency sank to its record low of Y79.75 in April last year, threatening to push Japan into a full-scale depression. Alarmed at the prospect of a Japanese economic melt-down, the US and Japanese central banks intervened to bring the dollar back to its present level of about Y105. At this level, Japanese exporters can again make profits and the domestic economy has recovered enough to suck in imports.

But Japanese institutions are still in too much financial trouble to heed finance ministry exhortations to buy US government bonds. In fact the latest balance of payments figures show they have been selling US securities since last September and continue to do so.

"The dirty little secret of the mid-90s [US] recovery is that it depends more than ever on Japanese components and Japanese money," Murphy claims.

That assertion, along with his belief that US policymakers stood by while "strategic industry after industry was lost to foreigners", is perhaps a bit hard on the US. Its software and semiconductor industries have shown remarkable ability to establish global leadership and US car companies have taken giant strides to improve their competitiveness.

But the book is a stimulating and valuable reminder of the instabilities of an economic relationship on which much of the rest of the world turns. It also offers several prescriptions for reducing the risks of US-Japan financial turbulence.

For example, Murphy urges the US to remember that economic negotiations with Japan have to be handled with extraordinary delicacy. The Tokyo government has historically had no central direction, so pressure needs to be applied judiciously and on many different fronts.

The fragmentation of Japanese politics in recent years has made it more difficult to spot who is really in charge and Japanese politicians find it even harder than their US counterparts to keep promises. Accordingly, Washington needs to be more patient and serious in its Japan policy, Murphy suggests – and to improve the quality of the advice it gets.

Japan, for its part, needs to build up a political system with a clearly accountable centre of power. Murphy hopes that more responsive and intelligent policymaking will help it resolve contradictions such as its need for access to export markets while maintaining a "cartelised mercantilist economic regime at home".

Sadly, policymakers on both sides of the Pacific show little sign of moving in the direction suggested by Murphy. Perhaps they should read his book.

The Weight of the Yen is available from FT Bookshop by ringing +44 181 964 1251 (post and packing £1.50 in Europe)

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

UK gas regulator's proposals lack consistency

From Mr Philip G. Rogerson.

Sir, Commenting on Ofgas's initial proposals for the 1997 British Gas Transco review, Lex (British Gas", May 14) said that "the regulator's plans look intellectually robust".

Consistency is a quality of any intellectually robust argument. Ofgas has in fact just rejected almost every major recommendation made in August 1993 by the Monopolies and Mergers Commission regarding the valuation of Transco and legally approved by itself in September 1994: full current cost accounting depreciation, a uniform discount on all assets, a regulatory asset base in line with the net asset value for accounting purposes, but a reduced cost of capital to reflect the market asset ratio of the market value of the company to the replacement value of the whole of the company's assets.

The only significant MMC recommendation Ofgas has accepted is the end-1991 date when the market asset ratio of 60 per cent was established. Ofgas, however, has undermined this ratio by suggesting that at the end of 1991 the ratio should value non-regulated activities at net book value while regulated business should bear the whole of the difference between market and book value.

A regulated company and its investors have to exist in the context of earlier MMC and regulatory decisions which apply to it and not to other companies.

In the case of Transco, this is the 1993 MMC report and the Ofgas formula review of 1994 which led to the Transco formula applying from October 1994 to March 1997.

The British Gas Transco's pricing methodology, which followed from the MMC report, was legally approved by Ofgas only 18 months ago.

Philip G. Rogerson,
deputy chairman,
British Gas,
The Adelphi,
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UK

Good houses for the RSC

From Mr Adrian Noble.

Sir, David Murray, in his article "Mixed signals from the RSC" (April 29), writes, "the fact is that the RSC has sometimes found itself playing Shakespeare to a one-third-full Barbican Theatre, which is not good business by anybody's standards".

His facts are wrong. Our Shakespeare productions at the Barbican for the season 1995-96 played to 77 per cent capacity. Our Shakespeare productions for 1994-95, 78 per cent of capacity. Since they opened, our current productions, *Romeo and Juliet* and *Taming of the Shrew*, are playing to an average of 88 per cent of capacity.

David Murray's misinformation puts an unfair slant on the article.

There is a very important debate to be had about the national identity of the UK's national classical theatre company, about how much time it should spend in London and what responsibilities it has to the nation as a whole. The context of our decision to re-shape our *modus operandi*, however, was absolutely nothing to do with a fall in demand for our Shakespeare work in London, as I hope you will see the figures show.

Adrian Noble,
artistic director,
Royal Shakespeare Company,
Barbican Theatre,
Barbican Centre,
London EC2Y 8BQ, UK

City's mental limbo on single currency

From Mr John Stevens MEP.

Sir, Your leader "The City sans Emu" (May 9) appears astonishingly superficial in the light of the documents just distributed by the Bank of England which highlight the Square Mile's lack of preparation for the advent of the single currency, whether we are in or not. The bond markets may well be convinced the single currency is coming. The leadership of too many City institutions still seem to believe it will probably never happen.

This is, perhaps, an understandable reaction to the increasingly bizarre domestic political debate, but it could certainly prove more fatal to UK interests than either a clear preference to stay out or to join.

It is precisely this sort of mental limbo, in which even informed opinion has landed itself on this issue, that we could fail to prevent, say, settlement and clearance arrangements, seriously prejudicial to our interests, being made by the French and the Germans.

John Stevens,
39 St James's Place,
London SW1A 1NS, UK

Sad that bondholders' action necessary

From Mr Jonathan Stone.

Sir, So executives at ING Barings ("Bondholders issue writs", May 11) think our claim is eroding sympathy for the bondholders.

It would be interesting to know what survey they have undertaken to support this view, and whether they themselves formerly had any sympathy for the bondholders. Certainly they have never written to us expressing their sympathy, let alone offered bondholders any recompense out of their substantial and unearned bonuses.

After a year of such silent and useless sympathy, and deafening silence from the distinguished houses responsible for the £100m issue, we have decided that sympathy now needs the helping hand of the law.

It is a sad reflection on the way business is done and supervised in the City these days that it has come to this.

Jonathan Stone,
chairman,
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c/o S.J.Berwin & Co,
222 Gray's Inn Road,
London WC1X 8HB, UK

BSE: impossible to separate infected material

From Mr Fergus Poncia.

Sir, I refer to Douglas Hogg's letter (May 8) on the government's stance on BSE. I can understand that banning mammalian protein from ruminant feed would eliminate the possibility of an infective agent being transmitted from one to the other, but surely the most likely source of infective material is derived from the cattle themselves – in other words, all ruminant-derived protein should be banned from ruminant feed.

The incidence of the cross-contamination at the rending plants between mammalian and ruminant protein does not give me any confidence that the renderers have been, or are able, to separate infected from non-infected material. How else could an infective agent have continued to be spread after the so-called ban upon infected spinal and brain material was implemented several years ago?

If the renderers have not been at fault, one most likely possibility of continued infection is via the maternal line, in which case all offspring of infected cattle should be destroyed, not just old ones.

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Thursday May 16 1996

Time to apply some force

The Anglo-French defence relationship blows hot and cold with alarming frequency. Eighteen months ago the two countries agreed to co-ordinate their air forces at a very convivial summit at Chartres: nine months later there were harsh words when Britain chose to spend £2.5bn on US rather than French anti-tank helicopters. Now it is all smiles again, with the two countries stressing their parallel defence goals. A symbolic lead is being given by British Aerospace and Matra, which have agreed to merge their missile businesses after three years of negotiation.

The arguments in favour of closer Anglo-French defence ties are strong. Both are medium-sized nuclear weapons states which by dint of history hold permanent seats on the UN Security Council. Both have armed forces capable of acting outside Europe. Each has difficulty stretching its defence budget around its ambitions.

In defence procurement, the reasons for greater integration are equally clear. Common procurement, particularly if Germany is included, would reduce the duplication of development spending and give longer production runs, cutting the unit cost of weapons. Cheaper common equipment would also make the European defence industry more competitive in the export market, where the new US industrial giants are beginning to gain a decisive edge.

Despite the pressures, the two countries are barely crawling towards closer defence procurement. Britain's emphasis on free competition is fundamentally at odds with France's centrally planned approach. The UK, jealously guarding its close relationship with the US, likes to play the field, buying from Europe when it suits and the US when it does not. France loudly advocates a "buy European" policy to its partners, which all too often translates into a "buy French" reality. Even the BAe-Matra deal could yet be scuppered if the French government objects to UK procurement policy.

Neither country has yet really been prepared to make the hard compromises which would produce a more rational defence industrial base. The problem is made even more difficult because Germany, the other large European arms-maker, must also be included if the consolidation is to be meaningful. With the US technical and industrial lead increasing, time is pressing.

Tantalisingly, compromise seems within reach. Britain could usefully think a little harder about the impact of completely free competition on its industrial base; France could benefit from the efficiencies which market disciplines bring. The nascent Franco-German arms procurement agency, which Britain seems set to join, is a forum in which these issues can be resolved. Yet more constancy is needed, and movement by both sides will have to accelerate from the current snail's pace if the European arms industry is not to become a museum exhibit.

Top dollar

The merry-go-round of banking and broking jobs is spinning ever faster – and more lucratively. In recent weeks leading international banks have seen top corporate financiers and analysts stream through their doors in both directions. Why is this happening now, and are these people really worth the millions of dollars invested?

There is a genuine puzzle behind the headline-grabbing salaries which provoke such envious comment. If the financial rewards are so persistently high compared to those in other occupations, why does supply not rise to restrain them – and even, dare it be said, to raise the quality of financial professionals at the same time? True, corporate financiers must master the mechanics of issuing equity and debt, and equity analysts must grapple with calculations such as the diluting effect of rights issues. But these technical skills are not so hard to pick up that they constitute a high barrier to entry.

There are, however, several factors which explain the salaries – at least, those of the stars. First, the potential of some sectors to generate fees has suddenly grown. The embrace of privatisation by western European governments, and to some extent by Latin America and parts of Asia, is high on that list. The wave of mega-mergers and bids continues; telecommunications and media, in particular, have replaced pharmaceuticals in lucrative potential.

These trends have brought "winner-takes-all" characteristics to more sectors. The value of the best few people in the sector has soared; the value of the also-rans is only a fraction of that sum. Banks understandably are desperate to hire the best.

And what constitutes the best? Personal contacts form a genuine barrier to entry. To be on first-name terms with the finance minister organising a privatisation, or with a leading fund manager, is hugely valuable. In the scramble to dominate the "hot" sectors, the time taken to cultivate these from scratch could lose the race.

It is also worth considering – contrary to popular perception – that the earnings of many in financial services, other than the superstars, measured over a whole lifetime, may not be so different from those in other occupations. Many financial careers are short; the industry is intimately acquainted with the notion of job insecurity. That risk alone may deter those in other walks of life from applying.

At the same time, institutions on the lookout for new stars do themselves no favours. Hiring fresh talent from outside the industry is a risk many banks seem reluctant to take. They may function as meritocracies for those inside. But when it comes to outsiders, they – and their headhunters – often play safe and recruit proven names. So the game of musical chairs goes on.

Burden sharing

Proposals elaborated yesterday by senior finance officials of the Group of Ten industrialised countries show governments are trying to grapple with the risks that come with free capital movement and the growth of international bond markets. But the G10 suggestions, while sensible, are too modest to have much impact on the resolution of future financial crises.

The trigger for the proposals in yesterday's report was last year's bail-out of Mexico, and governments' desire to see equal burden sharing among parties to a crisis. While governments were providing up to $40bn of finance for Mexico, a group of US creditors holding high-yielding Mexican government paper – and whose unwise lending had exacerbated the crisis – were being paid out on time and in full.

The report proposes that the International Monetary Fund should be allowed in exceptional cases to step in to lend to debtor governments even while they remain in default with bondholders. This it can already do when bank creditors are involved.

The report also argues for changes in bond contracts which would allow an easier resolution of debt defaults. The aim would be to reduce the prospect of debt settlements being "held to ransom" by a few individuals and reduce the incentives for bondholders to seek individual settlements.

As far as they go, the proposals will probably help but, perhaps inevitably, they do not go very far. The officials threw out proposals for an international bankruptcy court, deciding rightly that changes should be driven by the market place.

Even if adopted tomorrow, the vast majority of existing bond contracts will for years still carry old contract language. Furthermore, the instruments which caused Mexico so much grief – the infamous *tesobonos* – were domestic financial instruments, which would not be covered by these proposals. In any case free capital movement has blurred the distinction between international and domestic financial markets.

Finally, the G10 governments themselves have been unwilling to lead by example and introduce the changes in contracts of their own bonds. The issue here is that any developing country wanting to pioneer the proposals may, by even raising the possibility of default, be taking a risk with market perceptions.

The measures should help at the margin to reduce the risks of extended negotiations with creditors and increase the chances that both lender and borrower share the burden of settlement. They will not do much, however, to prevent future financial crises. To do this, as the report also emphasises, prevention through the pursuit of sensible economic and borrowing policies is better than any cure.

Sir Leon Brittan and John Redwood debate Britain's role in the EU

European Union: angel or demon?

Brittan: Our future lies in Europe

Britain's national identity *is* under threat. What is under threat is our identity as a country of tolerance, pragmatism and moderation. But the threat is not from European integration; it is from our own lack of self-confidence in responding to a competitive and unstable world.

The threat is that instead of responding to this challenge by working with our European partners, we run away from them by making Europe a scapegoat – and kid ourselves either that we can persuade our partners to reverse what we have together created, or that we would be better off going it alone.

The process of European integration up to now has not threatened our identity; it has, rather, helped us meet today's challenges. We have pooled sovereignty with our European partners where we could achieve together what we could never achieve separately.

The best example is the European single market, which has broken down barriers in Europe and opened up opportunities for our exports, so that now over 50 per cent of our goods go to Europe.

To achieve that it was not enough to abolish tariffs and create a free trade area. We had to have effective rules about minimum common standards, fair public purchasing, government subsidies – rules which required common institutions to apply them and police them – and you obviously had to have an independent court to interpret them. You could not possibly allow 15 national courts to interpret the rules in 15 different ways.

We have benefited enormously from this integration. As a result the Italians had to repeal a new luxury car tax which excluded Jaguar cars from the Italian market and cost Jaguar about £80m in lost sales. UK firms now supply traffic safety equipment to German local authorities, bookbinding services to the new national library in France, and Land Rovers to the Italian army. We have also needed the united strength of the EU to open up markets all over the world through international trade talks.

But is there now a real threat that we will lose our national identity? Nothing afoot in Europe suggests that is remotely likely. Of course there are some who dream of a European superstate. But the reality is that is not going to happen because that is not what European leaders or people want.

So let us take a look at what sort of further European integration is actually on the cards. The biggest step planned is monetary union. Why do people want it? To abolish the costs of switching from one currency to another; to end uncertainty caused by one currency rising or falling against another. But will those who go ahead in 1999 have their national identity threatened?

By definition, governments will lose control over monetary policy. That is nothing new for countries which have independent central banks. And it is nonsense to say, as has been suggested, that the Budget will be faxed from Frankfurt.

All that is required is that member states run economic policies which are consistent overall with the aim of low inflation. Governments will still have the right to spend high and tax high, or spend low and tax low. All that is prohibited by Emu is a spend high, tax low policy over many years.

Apart from Emu, the next steps in European integration are likely to be the ones emerging from the Intergovernmental Conference. It is already clear that we are not going to see a dramatic leap forward.

There will be a modest extension of majority voting to allow the eastern European countries to join the EU without the decision-making process becoming paralysed, and also changes to reinforce EU foreign policy. But there is no question of Europe voting to send UK troops somewhere against our wishes. These developments are not threats to our identity, they are intensely in our national interest. The myth of an inexorable march forward of a more and more interventionist Europe is miles from the reality.

Europe is cutting back on red tape and adopting a business-driven agenda. When I first went to Brussels my opposition to social legislation meant being looked at as if I wanted to send boys up chimneys in the Victorian era. Today keeping social costs down and a flexible labour market are the accepted watchwords.

These are the realities of Europe today. To talk of reverting to a mere free trade area is absurd. It would deprive us of most of the benefits of the integrated single market. But some would go further. They demand abolition of the common foreign and agricultural policies and want to denude the European Court of effective power.

There is not the slightest chance of our partners agreeing to that kind of agenda. So let us not give any credence to policies which are no more than a cloak for a strategy for withdrawal from Europe. That would be a disastrous course for Britain. It would strip us of any influence over European decisions that are bound to have a huge impact on our future.

I do not believe that Europe is something which just happens to us. Europe is something which we can and should influence, just as the French use it to achieve French objectives and the Germans to achieve German objectives. To suggest that we cannot do as they do is simply defeatist.

We can use the EU to achieve Britain's national objectives, promote our national ideals and entrench our national identity. Let us regain our self-confidence and reverse the defeatist tide that is the true enemy of our national identity.

Redwood: Emu would mean misery

There are few more potent symbols of British identity than roast beef and the union flag. In the last month we have seen the European Union ban the former and ask that public buildings replace the latter with the 12 stars on Europe Day.

The aim of European integration is to create a country called Europe. For it to work, we would all have to swear allegiance to Europe. Of course that means weakening our sense of belonging to Britain. We would look to Frankfurt rather than to the City of London for our economic prospects. Our armies would go into battle under the European flag, marching to the European anthem. We would be represented abroad by the European rather than the British ambassador.

Advocates of more integration tell us that such talk is far-fetched or alarmist. Yet we have already travelled a long way. We joined a common market. That common market already has a flag, an anthem, a supreme court, a parliament and a powerful executive in Brussels. If I had said 70 years ago that today we would regularly find Acts of Parliament overturned by the European Court, that Brussels would have banned sales of our beef worldwide and that British taxpayers would have to pay compensation to Spaniards who did not fish our waters, I would have been branded as fanciful or worse.

The biggest step the EU wishes to take towards one country is to create a single economic policy presided over by a central bank. The pound would be abolished. The Bank of England would become an outpost of Frankfurt. Preparing for the single currency scheme is destroying jobs and raising taxes across western Europe but proponents say we must press on more rapidly, we must advance into the teeth of the gunfire. They say the trouble goes to show that the markets are unruly and unhelpful, so they must be overrun. The result of their actions is to inflict as much damage on the economies of western Europe as generals inflicted on the armies of western Europe in the Great War.

The single currency, we are told, would remove exchange risks for business and increase trade and prosperity. But moving money around the EU would still have a cost. Banks charge more for money transmission than for switching currencies. They might try to replace some of the lost foreign exchange commission with higher transmission charges.

For most British businesses, the single currency would be all cost and no benefits. Most businesses serve a local or national market. There would be no foreign exchange savings, but they would have to re-equip to handle the new currency. During the transition, all shops would have to be able to handle two different currencies. They would need two lots of tills. Every slot machine and cash dispenser would need modifying. It means £2bn or more of costs to set the system up.

When two or more countries enter a currency union, they have to accept obligations towards each other. As poorer countries and regions can no longer devalue to make themselves more competitive, the richer parts of the union have to send benefits and subsidies to the poorer parts.

If Britain abolished the pound and gave our economic policy over to a European central bank, it would be the biggest transfer of power since the English civil war. Parliament would no longer have a say on how much you can borrow, what the mortgage rate should be, whether your business can expand.

Currency union would bring economic misery. It would also be political folly. I do not want to live in a Europe of 40 Quebecs, all unhappy about their lack of power and influence, speaking different languages, with different histories, cultures and allegiances, all trying to get out of the state called Europe.

The exponents of more European integration will stop at nothing to overthrow the countries of western Europe. They seek a common army, a common foreign policy, a single welfare and environmental policy, as well as a single currency. They say such a country would bring us greater peace and stability. But the nations of western Europe are peace-loving democracies.

I can understand the view that we ought to live in a country called Europe. What I cannot stand is people arguing that the anthem, the passport, the supreme court and the parliament just signify that we are good friends, that they are not the foundations of a new state.

Give us a single currency and a single army and you have effectively abolished parliament. No longer would the British people be able to seek redress from their MPs.

The British people resent attempts to undermine their democratic constitution at home and make decisions for them behind closed doors abroad. If we signed up for a single currency and a common foreign and defence policy, the nation would no longer have any political expression. We would have lost our voice in the world and most of our capacity for self-government.

Sir Leon Brittan, vice-president of the European Commission, and John Redwood, MP, were speaking in a debate last night on whether the UK's national identity is threatened by further European integration. The debate was organised by the University of Warwick in association with the Financial Times.

· OBSERVER ·

Private programme

■ Moscow's latest parlour game is guessing what the Communist party's economic programme would be if Gennady Zyuganov were to win next month's presidential elections.

The answer to Lenin's question, "what is to be done?" could be anything from a pale pink form of Slavic social democracy, to full-blooded Stalinist revanchism.

Komsomolskaya Pravda, the one-time bible of left-thinking youth – now transformed into a lively broadsheet for right-minded Yeltsinites – yesterday offered its own analysis, based on what it claimed were leaked Communist party documents.

Re-nationalisation, re-establishment of state planning, wage freezes, price controls, and a forced exchange of dollars at a disadvantageous exchange rate, are alleged to be some of the titbits on the socialist smorgasbord.

Party officials denounced the document as a "gross falsification" concocted by the Kremlin's witchdoctors, which did not contain "a single line of what is written in our programme".

So why the procrastination? The latest red-letter date for public presentation of the communists' long-promised, endlessly delayed programme is May 25. Maybe the party fears it's a case of "publish and be damned"?

Getting sloshed

■ It seems that Russian scientists have discovered the oldest lake on Earth, deep beneath Antarctica's icecap. Lake Vostok is estimated to be 140 by 30 miles, and is in the heart of Australian Antarctic Territory, next to Russia's Vostok science base.

Seismic soundings indicate its roof lies 2.3 to 2.6 miles beneath the ice at various points of its length; the water is estimated to be 1,600 feet (500 meters) deep. Researchers estimate the lake's waters may be as old as 1m years.

For some peculiar reason the boffins are hoping to get some of the water out in order to study the microbes they reckon it contains.

What a waste; imagine what you could charge for 1m-year-old bottled Antarctic water.

A king's ransom

■ India's next prime minister, the Hindu nationalist leader Atal Bihari Vajpayee, can look forward not only to running one of the world's biggest democracies – his house is getting a facelift, too.

His spacious New Delhi residence on Rasina Road was given the once-over yesterday as soon as it became known he was taking over the premiership. He's due to be sworn in as India's 10th prime minister today. Truckloads of carpets, new furniture and air conditioners were brought in, courtesy of the local authorities.

A local official explained: "We have been ordered to put all these things inside ... after 15 days, if we are asked to take them away (in case Vajpayee is voted out), then we will taken them away. But by tonight, we must make this house fit for a prime minister."

By the look of the goodies being wheeled in, fit for a king.

It's a knock-out

■ Can there be much hope for Germany, one wonders, following yesterday's front-page of *Bild*, the mass-circulation daily newspaper?

It reported that a special Berlin police commando stormed a hide-out at the weekend. Inside were five heavily armed Romanian bandits.

The police, complete in helmets and bullet proof vests, eventually succeeded in hauling out the offending hoodlums.

Given that formal charges must be brought within 24 hours, the police set about trying to identify the Romanians.

After 21 hours they still had difficulties. So they rang a duty judge to seek an extension, and told him they would be arriving in 90 minutes.

The unfortunate policemen set off late and became entangled in a traffic jam. The judge meanwhile waited 15 minutes after the end of his shift, and then pushed off home – five minutes before the police finally arrived.

The result – the five baddies had to be released because they couldn't be charged.

Germany's shopping hours are bad enough. But if it goes on like this the country may grind to a complete halt because, as *Bild* put it: "It's time to knock off."

Trench warfare

■ The onset of democracy in South Africa is sharpening up some aspects of the country, including its jokes.

Just before the 1994 elections two black South Africans were digging a ditch alongside one another. One turned to the other and asked "why are we digging? Why should we be doing such menial work?" The other smiled and said: "Don't worry. After the elections, Mandela will be in power, there'll be a new constitution, and then the bosses will be here digging."

Last week, after the new constitution was passed, the two found themselves alongside each other again, digging a different ditch. One turns to the other and says: "I thought you told me that after the election and a new constitution the bosses would be doing the digging?"

His companion turns to him and replies: "My friend, we *are* the bosses."

The Financial Times

100 years ago

Increased Cycle Trade

Another company to share in the profits arising from the increased cycle trade is now before the public under the title of the Dunlop-Traffault Cycle and Tube Manufacturing Company Limited. This Company is formed to acquire patent rights which, it is claimed, will do away with the vibration and jolting attendant upon cycling; and, in addition, to take over the Leamore Steel Works, which it is purposed to convert into a cycle factory. The working capital of the Company is to be £50,000. It would therefore seem that the difficulty experienced by the public in the purchase of cycles at the present time is in a fair way of being removed, or at all events, palliated to a certain degree.

50 years ago

Germans rise

From a rumour that Italy's pre-war existing debts might be given priority over reparations in the peace talks, speculators in Foreign Bonds drew the analogy that other ex-enemy countries might be similarly treated, and a little demand in a narrow market was sufficient to raise prices. German Dawes and Young loans were especially prominent in the later dealing at 11¼ and 9¾, showing gains of 1¼, and gains in Japanese bonds ranged up to ½.

FINANCIAL TIMES
Thursday May 16 1996

Surprise move follows slump in support

Dole quits Congress to revive presidential bid

By Jurek Martin in Washington

Senator Bob Dole yesterday took the extreme and unexpected step of resigning his seat in Congress to attempt to revive his flagging national campaign for the US presidency.

The presumed Republican candidate, trailing President Bill Clinton by an average of 20 points in public opinion polls, called in Senate colleagues and advised them of his decision before a press conference.

"My time to leave this office has come," Mr Dole told a crowd in the Senate. He said he would run for the presidency "with nothing to fall back on."

He said that he was running for the presidency "not attracted by the glories of the office, but by its difficulties". His voice breaking, he said: "Little has come to me but the hard way."

Several aides said that Mr Dole, with a total of 35 years' service representing Kansas in Congress, had decided it was not enough to take the lesser option urged on him by several Republicans and stand down as majority leader.

"Staying in the Senate in any way," one aide said, "would give the Clinton White House the opportunity to blur the issues by throwing legislative stumbling blocks in front of him."

Another said he needed to establish his "independence" from an unpopular Congress.

Mr Dole plans an instant campaign foray into Illinois today, stressing the personal qualities he believes match up well against Mr Clinton's. It was not immediately clear when he would officially leave the Senate.

The news shocked Washington, including the president's aides, although vice-president Al Gore said it could help break the legislative stalemate in Congress.

Mr Mike McCurry, the combative and voluble White House press secretary, ducked all immediate questions. He had earlier criticised Mr Dole for even contemplating relinquishing the majority leader's post.

Mr Dole's action represents a strategic shift, interpreted by partisans of both sides either as a stroke of genius or as an act of desperation. Congressman Newt Gingrich, the Speaker of the House, said it was "inevitable".

After his presidential nomination was virtually sewn up by early March, Mr Dole had attempted to run for president from Congress by engaging Mr Clinton in high-profile legislative battles. A low primary campaign treasury had also been a factor in staying in Washington.

But a reinvigorated and united Democratic party has frustrated him, most recently over his desire to cut the federal tax on petrol. He has also been hard pushed to resist Democrat demands for an increase in the federal minimum wage.

The resultant "gridlock" has done little for his reputation as a master-parliamentarian or for the Congress as an institution. It has also enabled the Clinton campaign to portray him as a captive of the increasingly unpopular radical rightwing Republicans, personified by Mr Gingrich.

Troubled campaign, Page 7

US-China trade war escalates with threat of tariffs

By Nancy Dunne in Washington and Tony Walker in Beijing

Washington and Beijing threatened each other with punitive tariffs and import bans on hundreds of products, including Chinese silk and US movies, as their dispute over intellectual property escalated yesterday.

The US announced $3bn in Chinese goods which could be liable to import tariffs of 100 per cent or more unless Beijing agrees by June 17 to improve protection of US products, including compact discs and software, from piracy.

Shortly after the US announcement, Beijing responded with its own list of threatened measures, which included punitive tariffs of 100 per cent on items such as agricultural products, cars and cigarettes. There would also be a freeze on approval of new US joint ventures in some sectors.

Beijing said bans would be imposed on imports of US movies, television programmes and other audiovisual products. This took aim at the US music and film industry, which has led the fight against counterfeiting.

Ms Charlene Barshefsky, acting US trade representative, said China's failure fully to enforce a 1995 pact designed to eradicate piracy of intellectual property had made the action necessary. Comment from US companies would be sought, and a hearing would be held on June 6 and 7 before the list was pared down to products valued at about $2bn.

Two-thirds of the US list comprises clothes and textiles, which the US says targets state-owned textile mills and Guangdong province, which Washington described as "China's most notorious region for piracy". The list also includes $600m of consumer electronics and $500m in other consumer goods, such as surfboards and gym equipment.

The US announcement of threatened sanctions follows the breakdown this week of two days of talks in Beijing between Mr Lee Sands, the US trade negotiator, and Chinese counterparts. Mr Sands left Beijing yesterday after his abortive meetings.

China accused the US of disregarding its "tremendous efforts" to curb intellectual property rights abuses and warned that it would "hit back harder" if the US went ahead with sanctions.

Ms Barshefsky set conditions to be met if the sanctions were to be avoided, including:

- Strong action against more than 30 factories producing counterfeit software, compact and laser discs, and videos.
- Creation of an effective border enforcement system.
- Expanded access to China's market for US audiovisual and computer software companies which want to establish joint ventures.

US fear of sanctions, Page 4

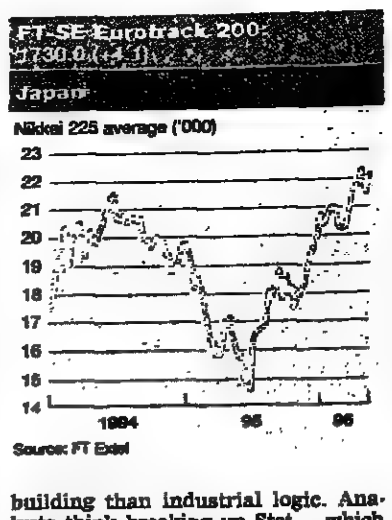
THE LEX COLUMN

Ringing the changes

The Italian government's desire for Cable and Wireless to swap shares with Stet, the state-controlled telecoms group, may prove a pipedream. But it does underline the fact that Mr Dick Brown is taking the helm at C&W at a time of great instability. This month's breakdown of merger talks with British Telecom has left it without a clear strategy. Though some like to talk of C&W as a string of pearls, it is more like a few pearls mixed with semi-precious stones and *lacking any thread to bind them* together.

Mr Brown has three main strategic options. The first is to flog the jewels piecemeal; since C&W trades at a big discount to the sum of its parts, the enhancement of shareholder value would be substantial. The second option is to merge the whole company with one of the three emerging global supercarriers – led by AT&T, BT and Germany's Deutsche Telekom. The snag is that this has already been tried many times but the regulatory and financial obstacles are formidable.

Option three is for C&W to try to string together its assets and act as the nucleus of a fourth supercarrier. This is where Stet and Veba, C&W's existing German partner, could come in. Other allies might also be roped in: GTE and the US Baby Bells, all of which need some sort of global strategy, are obvious candidates. Given that Mr Brown was passed over for the top job at Ameritech and is only 49, he is probably not keen to surrender the helm at C&W quickly. That makes option three the most likely. It is also the one that offers the poorest prospect of rapid shareholder returns.



Stet

Stet may be serious about joining forces with Cable and Wireless, but few in the telecoms industry take it seriously. The group's international strategy seems to be to lunge at anything that moves; but despite often offering the top price, prospective partners *rarely choose it. Stet's most* dramatic move, to date, was to offer to plough $1.4bn into Russia's Sviazinvest – only to pull out at the last minute. The group's most trumpeted deal has been a link with IBM which the Italian company has shown more interest in than the US giant.

While Italy's next government under Mr Romano Prodi is determined to crack the whip, getting Stet in a fit state for privatisation and partnerships will be hard. One problem is Stet's holding company structure with its maze of partly-owned subsidiaries, which has more to do with empire-building than industrial logic. Analysts think breaking up Stet – which encompasses fixed and mobile telecoms services, software, installation, equipment and yellow pages – could boost shareholder value by up to 50 per cent. At least in that regard, it has a lot in common with C&W.

A crazy structure is only part of Stet's problem. The high-priced Italian telecoms market is due to face an onslaught of competition when it is liberalised in 18 months time. If Stet is to meet the threat from aggressive *international rivals like BT which has* just teamed up with Mr Silvio Berlusconi's Mediaset, it will have to boost efficiency at home and devise a more focused international strategy. Maybe then, prospective partners will take it seriously.

Japan

The Japanese stockmarket is back on form. Yesterday's 3½ per cent spurt in the Nikkei average suggests the market has shrugged off the danger of an imminent rise in interest rates, and rightly so. Fears of a tightening of monetary policy had been fanned by an administration keen to talk up the *economy; officials are now pouring* cold water on the idea of an imminent tightening. The latter position is more credible, since economic recovery still looks relatively modest, and the government needs to keep interest rates low for as long as possible to allow the ailing financial system to recover.

This is good news for the stockmarket, particularly as the the *fading* prospect of a rate rise has created another favourable by-product: a weaker yen. This should flatter already strong corporate profits growth, as the results season gets under way. The financial sector may still prove a drag, but cost-cutting in other industries will have helped last year's profits, while stronger sales should start to feed through this year.

Of course, the link between a weak yen and a strong stock market is a mixed blessing for foreign investors. Since it started its bull run last July, the Nikkei average has risen more than 50 per cent in *local* currency terms but only 20 per cent in dollar terms. But there are compensations. Given the dislocation of the Japanese economic cycle, the stock market should be fairly resilient to corrections in other markets. And equities still offer reasonable value by comparison with bonds: even after a recent sell-off, *10-year bonds are still yielding* less than 3¼ per cent.

Argyll

The UK's food retailers are finally taking a breather from the torments of price competition. J. Sainsbury, Tesco and Argyll have all predicted stable *gross profit margins going forward,* as they struggle for cheaper ways to differentiate themselves than price. The remaining loose cannon is Asda, which could decide to plough more funds into price cuts, as an alternative to a loyalty card; but this looks unlikely.

At Argyll, about to be renamed after *its Safeway brand,* price discounting, including loyalty cards, more than offset efficiency savings of over £50m last year. So with the new store and refurbishment programme continuing at speed, earnings growth looks safely underpinned. Sales per square foot are heading for stated targets, but they remain well short of its larger rivals. *And the group has achieved 19 per* cent returns on investment in stores opened since 1987. However, the problem is that it is becoming tougher to get planning consent for new stores. Without new store growth, Safeway would look vulnerable to further twists in the competitive war.

Argyll's substantial interest cover *and rising cash flows provide consider*able scope for acquisitions, but there is little scope for deals at home, and it is unwilling to follow its competitors overseas. It is clearly better for shareholders to get 2 per cent earnings enhancement from a £200m buy-back than to see the money wasted on a hasty purchase. But the double digit returns on *capital* achieved by Sainsbury's *US subsidiary* Shaw's should provide an incentive for it to be a little more adventurous.

Additional Lex comment on PowerGen, Page 17

Chirac urges longer franchise to help Eurotunnel investors

By Robert Peston in London

President Jacques Chirac yesterday urged Mr John Major to extend Eurotunnel's franchise to operate the Channel tunnel by between 20 and 30 years to bail out the company's beleaguered shareholders.

During wide-ranging talks covering the European Union, defence co-operation and the beef crisis, the French president said the UK and France should consider joint action to mitigate the impact of Eurotunnel's financial reconstruction on the value of the company's shares.

He said he was deeply concerned at the prospect that hundreds of thousands of small shareholders in the two countries were likely to suffer.

Mr Major responded that he would consider the suggestion. However, UK ministers to date have been very reluctant to provide any kind of assistance to the company and a member of the *cabinet said recently there was* nothing the government could do. Under the legislation which paved the way for the construction of the tunnel, the UK government is prohibited from injecting any kind of direct subsidy into the company.

The concession has already been extended once before, by 10 years in December 1993, which means that the original 55-year concession is due to end in 2052.

Eurotunnel is currently in negotiations with its banks, which are owed more than £8bn ($12bn), but a settlement appears some way off.

Several of Eurotunnel's largest banks have strongly criticised an outline refinancing programme and are demanding a bigger share of the company's equity in return.

Analysts said a further extension would provide considerable impetus to the company's negotiations with its banks.

Mr Jeff Summers, an analyst at Klesch & Company, the debt trading firm, said: "It would be brilliant *public relations.* It would show the other parties that the governments are prepared to make sacrifices."

Bankers said an extension of the concession would be welcomed by the group's banks.

But observers agreed the economic impact on the company would be limited. "The value in current money of revenues in 60 or 70 years' time is actually quite low," said one banker.

Analysts estimated that a 30-year extension could increase the present value of the company by between £100m and £500m. This compares with the group's debts of £8.4bn.

Eurotunnel has claimed the two governments should provide some form of compensation on the grounds they have broken promises made to the company.

These include extension of duty free sales on ferries and the failure of the Eurostar train service, which is owned by the UK, French and Belgian railways, to meet passenger number targets.

EU: angel or demon, Page 11
Editorial Comment, Page 11

Stet looks at an Anglo-German alliance

Continued from Page 1

Dr Smith said it was natural that C&W should be stepping up talks with industry partners following the collapse of merger merger talks with BT earlier this month: "When you are having merger negotiations it is like a marriage. You do not talk to other people and contacts are put on ice. Now that is over" he said.

Meanwhile, Dr Smith announced the end of the group's six months search for a chief executive following the departure last year of Mr James Ross. Mr Richard Brown, currently president and chief executive of H&R Block, a Kansas City-based tax preparation company takes up the £650,000 a year job in *July.*

Mr Brown, 27 years in the telecoms business but comparatively unknown in Europe, has to restore direction and morale to a company with global ambitions but buffeted by boardroom squabbles.

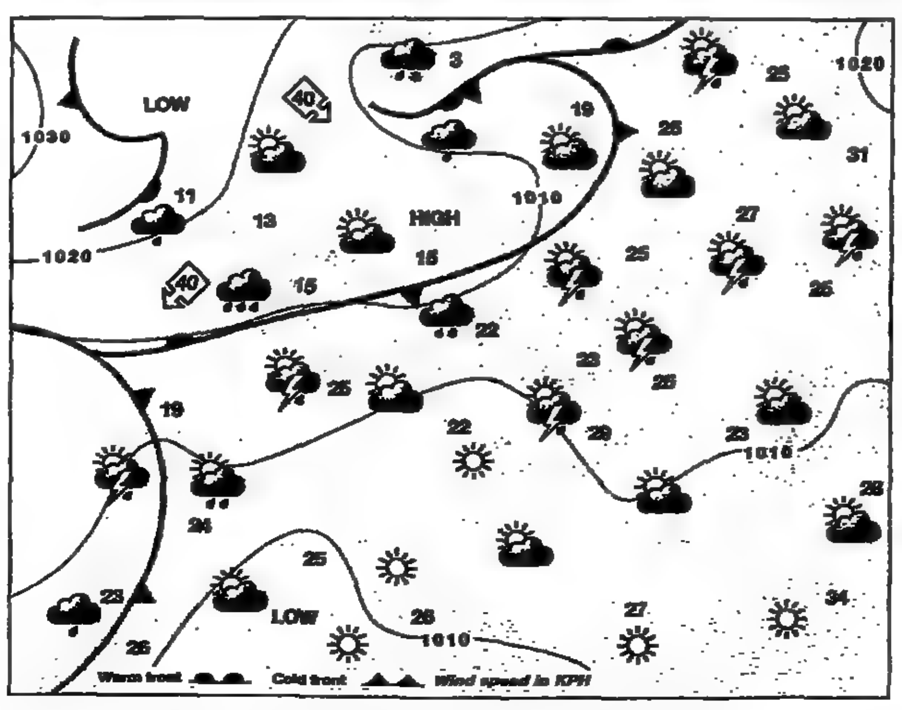
FT WEATHER GUIDE

Europe today

Central sections of Scandanavia will have rain and cloud. It will be sunny in England and Wales and there will be occasional rain in Ireland and Scotland. The Benelux and northern Germany will be sunny but cool. *France will be chilly with rain in the north but* it will be warm with rain or thunder showers in the south. Eastern Spain will be sunny and warm, but the west and Portugal will have cloud with rain or thunder showers. Italy will be sunny, while the Alps and southern Germany will have cloudy skies and showers. Eastern Europe will be warm and sunny with numerous thunder showers developing during the afternoon.

Five-day forecast

It will rain in northern France and the Benelux on Friday and Saturday. Heavy *showers will continue over the western* Iberian peninsula while eastern sections will remain dry. The British Isles will have cloud with occasional rain in most areas. Eastern Europe will be dry as high pressure develops over the region.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	39
Accra	fair	32
Algiers	sun	25
Amsterdam	sun	13
Athens	sun	28
Atlanta	fair	29
B. Aires	fair	20
B.ham	cloudy	11
Bangkok	cloudy	37
Barcelona	fair	25
Beijing	fair	29
Belfast	shower	11
Belgrade	thund	23
Berlin	sun	16
Bermuda	rain	23
Bogota	rain	19
Bombay	sun	33
Brussels	sun	13
Budapest	shower	25
C.hagen	fair	14
Cairo	fair	33
Cape Town	fair	21
Caracas	cloudy	30
Cardiff	fair	16
Casablanca	cloudy	22
Chicago	fair	27
Cologne	fair	15
Dakar	fair	27
Dallas	sun	32
Delhi	fair	39
Dubai	sun	37
Dublin	shower	11
Dubrovnik	fair	21
Edinburgh	cloudy	11
Faro	shower	22
Frankfurt	cloudy	15
Geneva	shower	22
Gibraltar	fair	21
Glasgow	cloudy	11
Hamburg	sun	11
Helsinki	rain	11
Hong Kong	fair	27
Honolulu	fair	31
Istanbul	fair	24
Jakarta	fair	33
Jersey	rain	14
Karachi	fair	32
Kuwait	sun	40
L. Angeles	fair	21
Las Palmas	cloudy	25
Lima	cloudy	23
Lisbon	shower	21
London	fair	14
Lux.bourg	fair	15
Lyon	shower	22
Madeira	rain	20
Madrid	shower	22
Majorca	sun	24
Malta	sun	25
Manchester	cloudy	10
Manila	fair	33
Melbourne	fair	17
Mexico City	fair	24
Miami	sun	32
Milan	shower	23
Montreal	cloudy	16
Moscow	thund	27
Munich	rain	13
Nairobi	fair	27
Naples	fair	23
Nassau	fair	30
New York	rain	15
Nice	fair	21
Nicosia	sun	21
Oslo	rain	4
Paris	rain	13
Perth	shower	22
Prague	rain	17
Rangoon	fair	35
Reykjavik	cloudy	11
Rio	fair	26
Rome	sun	22
S. Frsco	shower	17
Seoul	fair	23
Singapore	cloudy	32
Stockholm	rain	10
Strasbourg	rain	14
Sydney	cloudy	20
Tangier	cloudy	23
Tel Aviv	fair	30
Tokyo	fair	20
Toronto	rain	16
Vancouver	rain	11
Venice	fair	22
Vienna	shower	20
Warsaw	fair	22
Washington	shower	17
Wellington	fair	14
Winnipeg	rain	12
Zurich	rain	17

IN BRIEF

Pay row may hit Air France reshape

Air France said it would delay a planned restructuring of its domestic and European operations if domestic pilots did not agree to a new remuneration package by the end of next month. The company is seeking to align the pay and conditions of Air France Europe pilots with those of their non-domestic counterparts. Page 14

France Télécom slips as float looms
France Télécom reported full-year net profits down 7.3 per at FFr9.2bn ($1.77bn) on sales up 3.7 per cent at FFr147.8bn, in what are probably the last set of annual results before partial privatisation. Page 14

Swedish Match goes public again
Swedish Match was listed for the first time since 1988 on the Stockholm stock exchange and simultaneously launched on Nasdaq in New York. Page 14

Black consumer demand lifts African Life
African Life, the insurance group that contributes more than 70 per cent of the earnings of Real Africa Investments, South Africa's second largest black-controlled conglomerate, posted a 52 per cent increase in recurring premium income to R308.2m ($71.3m) for the year ended March 31. Analysts said the strong performance reflected sharply increased demand from black consumers. Page 15

Vitro declines in first quarter
Vitro, Mexico's largest glass-manufacturer, announced a fall in sales for the first quarter of 1996, thanks to a lower level of activity by its troubled US subsidiary. Page 16

Sharp rise for Berkshire Hathaway
Berkshire Hathaway, the US insurance and investment group, reported a sharp rise in first-quarter earnings. However, the company said the figures were "meaningless in evaluating the company or charting its progress". Page 16

Williams buys Sicli in FFr1.38bn deal
Williams Holdings, the diversified UK industrial group, announced its biggest acquisition in more than five years with the FFr1.38bn ($266m) takeover of the Sicli Group, France's largest fire protection and rescue vehicle company. Page 17

PowerGen buy-back fails to please
PowerGen, the UK electricity generator, unveiled a 40 per cent increase in dividend and a £400m ($606m) buy-back of 10 per cent of the company. However, investors were still disappointed. Analysts said the company should have returned more cash to investors. Page 17

Bank of Ireland to start 24-hour service
Bank of Ireland, the second largest Irish bank, is to launch a 24-hour telephone banking service in Ireland later this month. The bank hopes the service will help it increase its presence in Northern Ireland. Page 17

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Asko Prf	736.5	+	18.5
GEHE	912	+	17.3
Kaufhof	567.5	+	11
Linde	957	+	14
Falls			
[illegible]	525	-	10
[illegible]	[illegible]	-	[illegible]
NEW YORK ($)			
Rises			
[illegible]	29¾	+	4¾
HCC Ins	52¾	+	4¾
IMC Global	37	+	3¾
Storage Tech	39¾	+	2¾
Falls			
British Gas	28	-	1½
[illegible]	28¾	-	1¾
LONDON (Pence)			
Rises			
[illegible]	104	+	10
[illegible]	140	+	12
[illegible]	59	+	5
[illegible]	68	+	8
Falls			
[illegible]	173½	-	22½
[illegible]	204	-	19
TORONTO (C$)			
Rises			
[illegible]	11.00	+	1.50
[illegible]	7.00	+	2.40
[illegible]	91.20	+	4.50
Falls			
[illegible]	17.00	-	1.50
[illegible]	8.00	-	0.65
[illegible]	4.25	-	0.75
PARIS (FFr)			
Rises			
Docks France	1054	+	73
Geophysique	328	+	12.9
Intertechnique	597	+	27
Lafarge	346.8	+	16.1
[illegible]	161.5	+	7.8
Falls			
Valbonic	247	-	7
TOKYO (Yen)			
Rises			
[illegible]	2000	+	80
[illegible]	2210	+	100
[illegible]	1230	+	200
Nippon Denso	2270	+	[illegible]
Tokyo Dome	2620	+	170
Falls			
Ezaki	1050	-	40
HONG KONG (HK$)			
Rises			
Int Bk of Asia	4.625	+	[illegible]
[illegible]	[illegible]	+	5.71
Tak Sing Alli	3.25	+	0.225
US-HS	2.00	+	0.19
Falls			
[illegible]	3.025		
[illegible]	7.05	-	0.10
[illegible]	3.15	-	0.30
Lucky Man	[illegible]	-	0.125
BANGKOK (Baht)			
Rises			
[illegible]	59.00	+	5.00
[illegible]	68.00	+	6.00
Pacific Ins	42.25	+	3.75
[illegible]	44.00	+	3.75
Falls			
[illegible]	74.00	-	8.00
[illegible]	43.00	-	4.75

New York and Toronto prices at 12.30

Sony recovers to Y138bn

Sales at Japanese electronics group rise 15% with further growth forecast

By Michiyo Nakamoto in Tokyo

Sony, the Japanese consumer electronics and entertainment group, yesterday signalled a firm comeback by reporting a 15 per cent increase in consolidated sales for the year to March. It also forecast that pre-tax profits this year would rise strongly because of stable exchange rates, cost-cutting and the launch of digital products.

Buoyant sales of televisions, components and cellular phones as well as a recovery in the pictures group contributed to a rise in group sales to a record Y4,592.6bn ($43bn) from Y3,990.6bn.

Sony posted pre-tax profits of Y138.2bn, a turnround from the Y220.9bn loss last year after the write-off of goodwill in its Hollywood movie business. However, profits were only about half the Y270.7bn posted in 1991.

Sony's improvement over the previous year reflects more favourable markets in Japan, the US and Europe which spurred greater demand for products in most of Sony's businesses, except audio.

Sony has benefited from its strength in components and video displays, which have been in strong demand from the computer industry, and new products, such as digital camcorders, mobile phones and the PlayStation, Sony's 32-bit video games machine. Sales of the MiniDisc music system rose from 300,000 units to 700,000 units.

There are continuing concerns over Sony's level of inventories, which increased by Y133bn to Y856.6bn. Although Sony explained that half the increase was due to a weakening of the yen, "the level is still too high", said Mr Joseph Osha, analyst at Merrill Lynch in Tokyo.

Sony saw the fortunes of its movie operation improve with hits such as *Sense and Sensibility* and the popular TV series *Seinfeld*. The business increased sales 13 per cent in yen terms, and "did very well", Sony said, in contrast to the previous year, when Sony was hit by the goodwill write-off and a Y50bn loss in Sony Pictures.

Music revenues only rose 3.8 per cent in spite of the success of artists such as Mariah Carey and Michael Jackson whose HiStory album has sold 10m copies.

Sony expects a stable exchange rate, cost-cutting, a better market environment in Japan and product launches to help lift consolidated sales this year by 9 per cent to about Y5,000bn and pre-tax profits by 41 per cent to Y195bn.

Rome plans a fast marriage for Stet – C&W is a possible suitor

Italy primes eligible partner

Mr Romano Prodi, who should shortly be appointed as Italy's prime minister, wants to act fast. Immediately after his centre-left coalition won the April 21 elections, Mr Prodi said he intended to accelerate the stalled privatisation programme, in particular the sale of the state's majority stake in Stet, Italy's telecommunications holding company.

Now Mr Prodi and his advisers have framed an ambitious plan to slim down and marry off the telecoms group – if possible with Cable and Wireless of the UK, and Veba, the German industrial conglomerate. Stet is understood to have reopened tentative talks with C&W, called off when the UK company began negotiating with British Telecommunications about a possible merger.

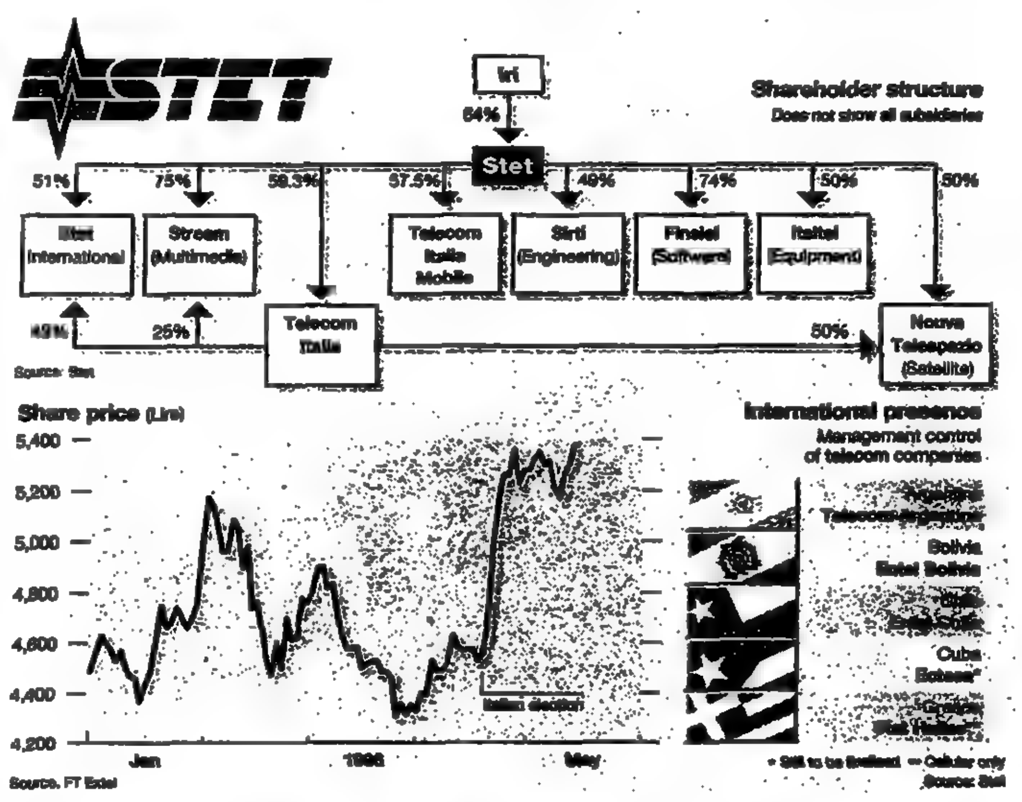
Following the failure of those attempts, a partnership between C&W and Stet would pair off the last eligible telecoms operators in the European market.

"If you look at the corporate outsourcing market, C&W isn't in one of the three big partnerships and neither is Stet, so from that point of view it might make sense for them to join together and become the fourth player in global outsourcing," says Mr Douglas Wight, telecoms analyst at Salomon Brothers in London.

The plan would achieve two of the goals which have eluded Stet and IRI, the state holding company which owns 64 per cent of Stet. It would create a global telecoms alliance, rendering Stet more appetising for potential buyers of a first tranche of Stet shares. A sale would, in turn, reduce IRI's debt, which otherwise risks breaching limits set by the European Commission in 1998.

Mr Prodi's advisers hope an alliance could be cemented with Stet's purchase of shares in C&W, and the establishment of a reciprocal hard core of industrial and financial investors in Stet, including C&W and Veba.

The plan would have far-reaching implications for the Italian telecoms group. At home, such an alliance would neutralise C&W's Italian operation, part of Cable and Wireless Europe, the joint venture between C&W of the UK and Veba. Linking C&W's competitive Italian business into a deeper industrial alliance would help Telecom Italia and



Telecom Italia Mobile – Stet's principal operating subsidiaries – put up a stronger defence against competition from the likes of Infostrada, a partnership between Olivetti, Bell Atlantic and France Télécom, and Albacom (the BT joint venture with Banca Nazionale del Lavoro), which recently allied with Mediaset, Mr Silvio Berlusconi's media group.

Abroad, Stet's hopes have been invested in the preliminary agreement with IBM of the US, which foresaw a global alliance between the Italian telecoms group and the US computer manufacturer. C&W Europe has also expressed an interest in joining such an accord, which would aim to offer international business and private clients a selection of networked telecom and computer services. Talks between IBM and Stet have dragged on for more than a year. They have been marked by disagreement over who should control such a partnership, and by IBM's concerns about competition from Stet's successful Finsiel software subsidiary. A direct alliance with C&W and Veba might fulfil Stet's ambitions better.

Mr Prodi has plans for Stet's structure and investments. The new government would not split Stet into component parts but his advisers do envisage the sale of certain Stet operations, including Seat, the valuable publishing division and the half-share of Sirti, the cash-rich telecoms engineering subsidiary.

A new government could also rein in the ambitious expansion plans of Mr Ernesto Pascale, Stet's chief executive, including his pledge to spend L37,500bn ($24bn) by the end of 1998 to link 10m Italian homes to fibre-optic cables. The Prodi advisers believe those plans should be scaled back to cover a maximum of 5m homes in the same period.

Stet refused to comment on the likely change of strategy yesterday. Mr Pascale is known to be sensitive about his position as chief executive, up for renewal next month. If he resists changes, he is likely to face the combined political weight of Mr Prodi and Mr Carlo Azeglio Ciampi, tipped to become Treasury minister in the Prodi government and who will be in charge of privatisation.

If Mr Prodi makes his advisers' plan the condition for a rapid privatisation, Mr Pascale may have to obey his majority shareholder.

Lex, Page 12

Andrew Hill and Robert Graham

What Brown brings to C&W

By Alan Cane in London

Richard Brown

What he will earn

- Basic salary: £650,000 a year
- Bonus: maximum of 100 per cent of basic salary after three years' earnings per share growth averaging 15 per cent a year
- Share options valued at four times basic salary (£2.6m) exercisable after three years contingent on earnings per share growth of at least 6 per cent in real terms over that period
- Two-year rolling contract
- No "golden handshake" or "golden parachute"

It was pure coincidence that had Mr Richard Brown passing through London the day Cable and Wireless called off its proposed merger with British Telecommunications.

On his way to Sweden for a Pharmacia and Upjohn board meeting, where he chairs its compensation (executive pay) committee, he found himself spending that Thursday with Mr Brian Smith, C&W chairman, finalising details of a job offer that had been in abeyance since February.

Yesterday, he was philosophical about the delay and the prospect that the job might never have materialised: "You must never have one course of action. Brian Smith and I kept talking during the negotiations, but it would have been very different for me if the merger had gone ahead."

Now he has responsibility for bringing new focus and direction to a company shaken by the unexpected expulsion late last year of its former chairman and chief executive, Lord Young of Graffham and Mr James Ross, after a boardroom dispute.

Born in 1947, Mr Brown has been in the telecommunications business most of his working life. However, his present job is president and chief executive of H&R Block, a Kansas-based company that advises on tax affairs and is better known in the information technology community as the parent of Compuserve, the online information service. "I understand technology, I understand business and I have experience outside the telecoms industry," he said yesterday, outlining the skills he would bring to C&W.

Mr Brown was educated at Ohio University where he studied communications and started his career in 1969 with Ohio Bell. By 1980 he was the divisional manager for Cleveland responsible for managing installation, construction and repairs.

In 1981, he moved to United Telecommunications, which became Sprint Corporation, the third largest US long distance carrier. He became executive vice-president of Sprint in 1989, and joined Illinois Bell, the largest subsidiary of Ameritech in 1990 as president and chief executive. In 1993, he became vice-chairman of Ameritech, one of the regional Bell operating companies established after the break-up of AT&T in the early 1980s. He is credited with a central role in the reconstruction of Ameritech from five operating companies into 12 market-based units and a network.

He believed that working for Sprint had given him a powerful understanding of local and long distance telephone service, while his experience of Compuserve, with 5m customers in 185 countries had broadened his knowledge of international operations.

Colleagues say Mr Brown is decisive, has the ability to think laterally and has an interest and understanding of the critically important new areas of telecoms.

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Dornier family holds out against disposal by Dasa

By Frederick Stüdemann in Berlin

Mrs Martine Dornier-Tiefenthaler, a member of the Dornier family which retains a stake in the Dornier aircraft manufacturing subsidiary of Daimler-Benz, yesterday publicly criticised the German engineering group for trying to sell the unit.

Mr Dietrich Russell, the Daimler-Benz Aerospace (Dasa) board member responsible for the company's aviation business, had told a press conference that Dasa was still holding negotiations with Fairchild of the US about the possible sale of Dornier.

An enraged Mrs Dornier-Tiefenthaler told Mr Russell: "You cannot sell Dornier if we do not give our consent." She said the family opposed a sale to Fairchild, as the US company did not seem any better in management terms or more financially capable than Dasa.

Mrs Dornier-Tiefenthaler said the family would raise objections to Dasa's plans at the next meeting of Dornier shareholders, scheduled for later this month. "Mr Russell is conducting negotiations over a sale which cannot take place without the consent of other shareholders," she said.

Mr Russell said Dasa gave its support to a plan to turn Airbus Industrie, the European aircraft consortium in which Dasa holds a 37.9 per cent stake, into a single corporate entity. He said that ideally such a new company would be publicly quoted and cost and production efficiencies would be generated by the conversion of Airbus into a proper company.

Mr Russell said Dasa would also like to see new partners brought in for the development of a 550-seat "super-jumbo", the A3XX, which Airbus is considering. Given the expected development costs of $8bn-$10bn, additional partners would be needed.

The Dornier family owns 47 per cent of Dornier, but holds significantly lower voting rights. However, it alleges the sale of Dornier would be a violation of the contract signed when Daimler took control of the company. The family claims it retains the right to block the sale of any part of the Dornier group and the right of first purchase.

Prada perfume deal attracts Estée Lauder

By Alice Rawsthorn in London

Estée Lauder, the US cosmetics group, is expected shortly to announce plans to produce women's and men's perfumes for Prada, the Italian family firm which has become one of the hottest fashion houses of the 1990s.

The two companies are understood to have been in talks for several months regarding an agreement whereby Lauder will make and distribute scents for Prada under licence. Neither Prada nor Lauder would comment on the deal.

The designer fragrance market is one of the most profitable areas of the beauty industry which has sales of $70bn a year. Marketing budgets are high, but production costs so low that a best-selling designer scent, such as Chanel No5 or Calvin Klein's CK One, makes estimated annual profits of at least $20m on retail sales of more than $100m.

A perfume bearing the Prada name has strong commercial potential because of the high profile and prestige of the fashion house.

Prada was founded in Milan in 1913 by Mario Prada to make bespoke luggage for wealthy travellers. Its fortunes faded after his death until it was revived by his granddaughter, Miuccia, who took over in 1979 and has since revitalised its designs, while her husband, Mr Patrizio Bertelli, has restructured the business.

Prada's £250-plus nylon backpacks and minimalist fashion collections have since attained cult status. The company, still family owned, has expanded from its original Milan shop into an international chain of 58 boutiques and made sales of L570bn ($365.6m) last year.

An agreement with Prada would form part of Estée Lauder's strategy of modernising its product range following its flotation on the New York stock market last autumn. Lauder, founded in 1946 by Mrs Estée Lauder and her financier husband, Joseph, is best known for the old fashioned glamour of best-selling perfumes such as Beautiful, White Linen and its latest launch, Pleasures.

NEWS DIGEST

Pay row threatens Air France merger

Air France yesterday said it would delay a planned restructuring of its domestic and European operations if domestic pilots did not agree to a new remuneration package by the end of next month. The state-owned carrier said it would be unable to proceed with the merger of Air France Europe, its domestic partner, with its own European operations in April 1997, as currently envisaged, unless agreement was reached.

It said it was seeking to align the pay and conditions of Air France Europe pilots with those of their non-domestic counterparts. At present, Air France Europe pilots receive between 10 per cent and 15 per cent more.

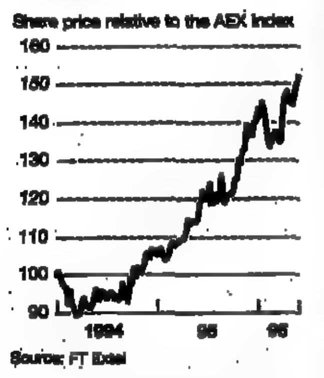
This emerged as Mr Christian Blanc, Air France chairman, confirmed he was aiming for privatisation of the airline late next year or early in 1998, saying he was "aware of the difficulties but absolutely not pessimistic. If, as we hope, we can rectify the situation of Air France Europe's accounts ... shareholders will be interested in a company that has recovered so spectacularly in such a short time," he said.

The company yesterday revealed more details of a programme of measures to improve the financial performance of Air France Europe, which Mr Blanc recently warned would be insolvent in less than two years if nothing were done. This included a two-year pay freeze and the creation of shuttle services on routes between Paris and Marseilles, Nice and Toulouse. The company is aiming to cut staff levels from more than 10,000 to little more than 9,000 in two years, without resorting to compulsory redundancies.

Mr Jean-Pierre Courcol, Air France Europe's managing director, said the measures should restrict losses to FFr850m-FFr900m ($165m-$170m) in the first year after their implementation and FFr150m-FFr160m in the second.

David Owen, Paris

Aegon earnings increase 12.6%



Source: FT Extel

Aegon, the Dutch insurance group, reported a 12.6 per cent rise in first quarter net profits from Fl 289m to Fl 325.6m ($190m), and said it was on track for an increase in the full-year earnings of between 7 per cent and 12 per cent. Turnover advanced from Fl 6.07bn to Fl 6.7bn.

The life insurance arm saw operating profits rise Fl 37m to Fl 332m, of which the bulk was generated in the Netherlands and the US. Annuity deposits from US operations declined from $884m to $817m, but these figures were not included in the reported revenues. Investment income for the account of policyholders, also not included in reported revenue, rose from Fl 777m to Fl 966m.

The annual shareholders' meeting approved a final divided of Fl 1.75 – payable entirely in cash or in new stock at the shareholder's discretion. Aegon's management also announced a change in the interim dividend policy, to take effect starting with the payment scheduled for September 1996. It will now be 50 per cent of the previous year's total dividend, "barring unforeseen circumstances".

David Brown, Amsterdam

Lagardère bid for Matra Hachette

Lagardère Groupe, which controls Matra Hachette, yesterday proposed to absorb the unit via a one-for-one share swap. There is a FFr140 cash offer for those not wanting to exchange their Matra shares for those of Lagardère. Lagardère said the FFr140 price was 32 per cent above the average of the past 12 months. Matra's first quarter sales fell from FFr12.16bn to FFr11.78bn.

David Buchan, Paris

French first-quarter sales (FFr bn)

Company	1996	1995	% change
Lafarge	6.6	7.02	(5.6)
Pechiney	15.7	16.62	(5.5)
Renault	45.3	45.5	(0.0)
Seita	4.02	N/A	5.0
Alcatel Cable	8.88	9.56	(9.0)
Accor	6.90	7.43	(7.1)
Casino	15.30	14.45	5.9
GAN	15.42	14.24	8.3
Eridania-Beghin-Say	13.00	13.22	(1.7)
Lyonnaise des Eaux	21.84	23.24	(6.0)
Ciments Français	2.40	2.72	(11.0)

France Télécom slips as float approaches

By David Buchan in Paris

France Télécom yesterday reported full-year net profits down 7.3 per at FFr9.2bn ($1.77bn) on sales up 3.7 per cent at FFr147.8bn.

Announcing probably the last set of annual results before partial privatisation, Mr Michel Bon, France Télécom president, said 1996 would be a year of historic change for the state-owned utility.

A bill to open the French telecoms market completely in 1998 is before parliament, and the government is poised to propose another bill to incorporate France Télécom. The aim is to sell a large minority stake to private investors and employees.

Mr Bon said the fall in net profits largely reflected asset sales in 1994 and a provision last year for renewal of France Télécom's first-generation cable network.

He sought to head off union claims that such a profitable enterprise did not need privatising, arguing that France Télécom operated in a capital-hungry industry with large investment requirements. The group in fact reduced investment by 11.7 per cent last year to FFr35.8bn, but this in part reflected cheaper equipment supplies.

Some unions have threatened protests, but most appear to have accepted government assurances that France Télécom would continue until 2002 to give new employees civil servant status with associated job security rights, and that the state would maintain responsibility for pensions.

Mr Bon said this solution should ease the worries of potential investors in France Télécom over the issue of pensions, which he said had "poisoned" recent telecoms privatisations elsewhere. Productivity improvements at all telecom operators had decreased the ratio of active to retired personnel and therefore increased the burden on the former category of paying the latter's pensions, he said.

But he refused to predict whether partial privatisation would see the continuation of job reductions, which in recent years have cut the number of employees by between 1,000 and 2,000 a year to the current of 160,000. The large job cuts at British Telecommunications had been achieved by means other than forced redundancies, Mr Bon said.

In providing a level playing field from 1998, the government is aiming to ensure France Télécom pays the same social charges as its new competitors in France, such as Générale des Eaux and Bouygues. This may involve France Télécom handing over to the government money it has provisioned to meet pension liabilities, but which under the new arrangement it no longer needs. Mr Bon said these provisions, which might now go to the government, would total FFr22bn by the end of 1996.

Ordinary telephone services still made up 75 per cent of sales last year, but the strongest turnover growth was in mobile (24.6 per cent), leased lines and networks (6.9 per cent) and audiovisual and image services (13 per cent). Net debt fell 9.6 per cent to FFr87.3bn, compared with funds and capital of FFr136bn.

Currency gains help 31% advance at Novo Nordisk

By Hilary Barnes in Copenhagen

First quarter pre-tax profits at Novo Nordisk, the pharmaceuticals and industrial enzymes business, increased 31 per cent from last year's DKr425m to DKr557m ($94m). The result was slightly lower than the average forecast by market analysts, but the shares closed up DKr1 at DKr764.

Sales were ahead 1 per cent – from DKr3.4bn to DKr3.43bn – and profits before net financial items increased 8 per cent, from DKr473m to DKr510m. Net financial items showed a surplus of DKr47m compared with a DKr48m loss last year, a result of gains this year from foreign exchange and the securities portfolio.

With after-tax profits up from DKr310m to DKr396m, earnings per share rose from DKr8.26 last year to DKr10.56. The first-quarter figures were affected by a 4 per cent appreciation of the krone as well as a change in corporate strategy at the beginning of last year.

A decision to focus on its areas of core competence – diabetics care, hormone replacement treatment for women, human growth hormone and industrial enzymes – was followed by several disposals.

Sales of continuing businesses, measured in local currencies, increased 9 per cent, the group said. It maintained its full year forecast of an increase in operating profits and pre-tax profits of between 10 per cent and 15 per cent compared with 1995.

Healthcare sales increased 6 per cent to DKr2.51bn, and sales of diabetics care products, including insulin, of which Novo Nordisk claims to be the world leader, increased 10 per cent to DKr1.76bn, including an 18 per cent surge in sales in the US, partly owing to increased sales before a pre-announced price increase.

Last week Novo Nordisk announced a global strategic alliance with Rhône-Poulenc Rorer to market hormone replacement products worldwide, except Japan.

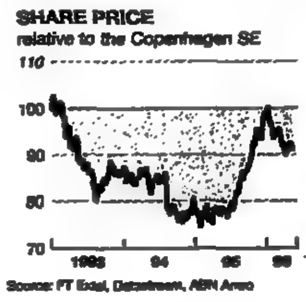
PROFILE:

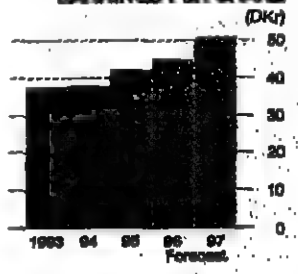
Novo Nordisk

Market value: $4.15bn Main listing: Copenhagen

Historic P/E	18.29
Gross yield	0.65%
Earnings per share (1995)	DKr 42
Current share price	DKr 763

Managing director Mads Øvlisen





Source: FT Extel, Datastream, ABN Amro

Defences planned against CIC sale

By Andrew Jack in Paris

Executives at one of the leading subsidiaries of CIC, the banking group ultimately controlled by GAN, the French insurer, are discussing the idea of "mutualising" their parent bank to prevent a sell-off to a rival group.

Lyonnaise de Banque, one of the larger regional banks within the CIC group, has already held discussions with GAN executives and government officials about their proposals to buy out the parent CIC holding company.

Under the plan, Lyonnaise and the other leading regional banks in the CIC network would use their own funds and raise external equity to take control of the holding company, and block any future takeover. They would later gradually reduce the external stakes.

GAN, which is owned by the French state and controls CIC, announced last year that it intended to sell off a stake in the bank as part of a plan to raise funds to help with its financial restructuring.

As discussions have intensified with the government, and concern over the need for a substantial recapitalisation of GAN has grown, the position has shifted, and it is now likely that the majority of CIC will be sold off by as soon as the end of this year.

A sale to another bank could trigger one of the most significant shake-outs in the sector in many years. Société Générale and Crédit Mutuel are among the institutions that have expressed interest in CIC.

Members of the regional banks which make up the CIC group are concerned that a sale could jeopardise their future, and lead to substantial loss of local decision-making power.

Some executives at CIC are believed to be sympathetic to the idea of a mutualisation, although top managers at GAN, which will help determine the process, believe the approach would not bring in sufficient funds to help with the insurer's recapitalisation.

Mr Jean Weber, chairman of Crédit Industriel d'Alsace et Lorraine, CIC's largest subsidiary, has already criticised the idea of a sell-off to another bank and stressed the importance of retaining banks linked closely to their regions.

Marseillaise de Crédit sees profit for 1996

By Andrew Jack

The chairman of Société Marseillaise de Crédit, the loss-making state-owned bank, predicted yesterday that his group should return to profit during the current year.

Mr Pierre Habib-Deloncle, who was appointed as the new chairman by the government at the end of last year, said in an interview that "catastrophe aside", he planned that the bank would generate net income of FFr30m ($5.8m) for 1996.

The return to the black would follow two years of heavy losses at the bank, which has forced the French state to provide FFr3bn in refinancing in the run-up to planned privatisation.

Mr Habib-Deloncle said the latest injection – FFr858m agreed by the state this week – was designed "sincerely" as the final rescue before a sell-off, and had been triggered by unexpected additional provisions against bad loans and before restructuring.

However, he said the new capital injection took the bank only marginally above the minimum international solvency ratio of 8 per cent, below which financial institutions are not permitted to operate.

He warned that he was likely to seek additional job losses as part of an operation to reduce costs before preparations began for a sell-off, which he said would come at the latest by the end of this year.

The chairman has previously stressed his preference to sell the bank to a variety of investors, but he said yesterday there was likely to be one buyer with a controlling stake of at least 51 per cent.

Mr Habib-Deloncle said there had been discussions with a number of potential purchasers in France and elsewhere in Europe.

Marseillaise de Crédit on Tuesday unveiled losses for 1995 of FFr657m, on top of losses in 1994 of FFr1.25bn.

Krupp promises dividend for year

By Michael Lindemann in Bonn

Krupp, the German steel and engineering conglomerate which reported record net profits of DM505m ($328.6m) last year and paid its first dividend as a joint stock company, yesterday said it had reason to be "cautiously optimistic" about 1996 and would once again pay a dividend.

Mr Gerhard Cromme, chief executive, said a 1996 dividend would depend on a combination of factors: what was right for shareholders; what was necessary for the future of the group; and to what extent money needed to be spent to deal with "burdens" incurred during recent loss-making years.

"We on the management board feel a considerable duty to pay a dividend," he said. Mr Cromme added, however, that several shareholders he had spoken to preferred to see the Krupp share price rise "instead of getting the odd D-Mark or so more" as a dividend.

The Essen-based group declined to give figures for the first four months at its annual results press conference, having issued first-quarter figures last month, but said that on the basis of business in April and May, both orders and sales would be higher than last year. All six divisions would make operating profits, Mr Cromme said.

However, the steel division, which contributed almost half of Krupp's pre-tax profits last year, would have a more difficult year, Mr Cromme said. The fall in prices for quality steels, which make up 19 per cent of Krupp's overall turnover, had been stemmed, and "now that quantities have improved we are confident that the prices will pick up too."

Mr Cromme indicated there would be further changes at Krupp, especially in its trading and services division. "There is a certain need to make some changes here and that is something we will do," he said.

Krupp also said it was still in "intensive" talks with a number of companies about the future of the construction and mining machinery businesses of O&K Orenstein & Koppel, whose sale was announced in December. Mr Cromme said he hoped to be able to announce an outcome in the "next few weeks".

Swedish Match sets bourse alight

By Hugh Carnegy in Stockholm

One of the most famous – and once notorious – names in the history of Swedish industry was returned to public ownership yesterday when Swedish Match was listed for the first time since 1988 on the Stockholm stock exchange and was simultaneously launched on Nasdaq in New York.

The company, still the world's largest manufacturer of matches, and also the biggest supplier of chewing tobacco in the US, was spun off by its erstwhile owner Volvo as part of the motor manufacturer's strategy of divesting all but its core automotive operations.

Swedish Match shares, distributed on a one-for-one basis to all Volvo shareholders, opened in Stockholm at SKr19.50 and rose quickly to SKr22.30 before closing at SKr21.90 – valuing the company at SKr10.1bn ($1.49bn).

"This gives another dimension to our business," said the company. "It is not that we have suffered under all the owners we have had in recent years but we have not been a core business for any of them."

Swedish Match achieved world prominence in the 1920s as the mainspring of the industrial empire built by the Swedish financier Ivar Kreuger. His domain included Ericsson, the telecoms group. He established monopolies in 35 countries in exchange for making loans to governments.

After the 1929 Wall Street crash the financial web unravelled and Kreuger shot himself in Paris in 1932 as his creditors closed in. Among them was the Wallenberg family, which stepped in to help clear up the debris, thus boosting the growth of the industrial empire it controls to this day.

The Wallenbergs controlled Swedish Match as late as 1989. In 1992, the remnants of the matches and lighter operations were taken over by Procordia, a company jointly owned by the Swedish state and Volvo, and merged with the Swedish state tobacco industry. The company become wholly-owned by Volvo.

Today, most of Swedish Match's SKr7.5bn annual turnover is accounted for by tobacco products. It is the biggest producer of cigarettes in Sweden – its main cash generator – and boasts a 99 per cent market share for "snus", a moist wad of smokeless tobacco jammed under the upper lip, a habit indulged in by a large proportion of Swedish men. Swedish Match also owns Pinkerton, the biggest US maker of chewing tobacco.

In the first quarter, group pre-tax profits fell from SKr537m to SKr298m, but were ahead when adjusted for a one-time gain of SKr328m in the same period last year. Sales rose from SKr1.67bn to SKr1.73bn.

Sonae to separate divisions

By Peter Wise in Lisbon

Sonae, Portugal's biggest conglomerate, yesterday announced a demerger aimed at focusing more effectively on the group's core retail and industrial operations.

A new company is to be split off from Sonae Investimentos, the group's main holding company, and listed on the Lisbon stock exchange from the beginning of 1997.

Shares in Sonae Investimentos gained almost 2 per cent yesterday, closing at Es3,714 as investors welcomed the move to separate the group's main business divisions.

"Investors, particularly international institutions, have been pressing for this split for more than two years," one Lisbon analyst said yesterday. "The demerger will make it much easier to track earnings trends for Sonae's operations."

Sonae Investimentos will concentrate on the group's hypermarket and supermarket chains – which account for about 40 per cent of the Portuguese market – by retaining a 100 per cent holding in Sonae Distribuição.

It will also manage the group's commercial real estate interests through a 100 per cent stake in Sonae Imobiliária, which is marketing one of Europe's biggest shopping complexes.

The new company will take over Sonae Investimentos's 63 per cent holding in Sonae Indústria, the group's laminated wood products division.

It will also assume a 100 per cent stake in Pargeste, a holding company for interests including newspapers, hotels and information technology. Sonae said a further split was planned over the medium term to increase specialisation.

"This is our response to the increasingly tough competition we are facing from more focused, non-conglomerate companies as we grow rapidly across a wide range of different markets and sectors," Sonae said.

Shareholders in Sonae Investimentos are to receive shares in the new company in the same proportion as their current holdings, leaving the existing shareholder structure of the group unchanged.

Figest, the personal holding company of Mr Belmiro de Azevedo, Sonae chairman and main shareholder, will continue to control 52.5 per cent of the group.

Portuguese banks report strong increases

By Peter Wise

Portugal's top banks have posted strong profit gains for the first quarter, with several more than doubling their earnings, mainly as the result of selling fixed-income securities.

Some leading banks have made substantial sales from their large portfolios of government bonds in reaction to a steady fall in interest rates, according to analysts.

This has resulted in strong profit growth in relation to the first quarter of 1995. Banks that disposed of financial assets earlier are showing significantly lower earnings growth.

Banco Português de Investimento, a group centred on Portugal's biggest investment bank, reported a 157 per cent increase in net consolidated profit for the first quarter to Es4.5bn ($28.5m) from Es1.8bn in the first three months of 1995.

BPI posted a Es4.4bn profit on financial operations, compared with a loss of Es600m in the first quarter of last year. Assets rose 11 per cent to Es1,417bn. Credit to customers increased by 18 per cent to Es435m; total deposits grew 5 per cent to Es939m.

Banco Pinto & Sotto Mayor, the parent bank for Portugal's third largest financial group, said non-consolidated profit climbed to Es4.5bn in the first quarter, up 194 per cent on the same period last year.

However, net consolidated profit was only Es1.1bn, owing mainly to the goodwill and financial costs of BPSM's Es153bn acquisition of Banco Totta e Açores in April 1995. Because of this purchase, BPSM's consolidated results for the first quarter are not directly comparable with the same period last year.

Banco Fomento e Exterior, the fifth-largest bank, reported a net profit of Es5.2bn, an increase of 79.3 per cent on the first three months of 1995. Cash flow rose 22 per cent to Es6.4bn and total assets rose 7.3 per cent to Es870bn.

Banco Espírito Santo, the fourth biggest group, achieved an increase of only 5.8 per cent in net consolidated profit, from Es4.52bn in the first quarter of 1995 to Es4.78bn. Analysts said BES had sold fixed-income securities in 1995, earlier than most other banks, leaving it with less to sell as interest rates fell during the first quarter of 1996.

Total assets rose from Es2,402bn in the first three months of 1995 to Es2,849n and credit to customers grew from Es899bn to Es1,228bn. BES's non-consolidated profit rose from Es4.3bn to Es4.4bn.

COMPANIES AND FINANCE: ASIA-PACIFIC / INTERNATIONAL

NEWS DIGEST

Chiefs step down at Nippon Credit

Nippon Credit Bank yesterday became the latest Japanese lender to lose senior management personnel in an attempt to atone for the disastrous financial performance of the past few years. The bank announced that Mr Seishi Matsuoka, chairman, and Mr Yoshiaki Toda, vice-chairman, were stepping down. Mr Hiroshi Kubota, current NCB president, would be moved to the chairmanship.

NCB, one of the country's three long-term credit banks, is estimated to have incurred an unconsolidated pre-tax loss of about Y130bn ($1.22bn) in the year to the end of March, as a result of large write-offs of non-performing loans, including those to the country's bankrupt housing loan companies. The bank joins Fuji, Industrial Bank of Japan and Mitsui Trust in dropping senior figures in the past month. Several other banks are likely to follow suit before or after their annual shareholders' meetings next month. *Gerard Baker, Tokyo*

Telecom NZ advances 15%

Telecom New Zealand increased its earnings by 15.6 per cent to NZ$716.8m (US$493.7m) in the year to March 31, helped by strong growth in business telephone revenues. Revenues for the company,- which is controlled by Bell Atlantic and Ameritech.two US phone companies – rose 12.2 per cent to NZ$3.18bn. Mr Peter Shirtcliffe, chairman, said robust growth was achieved in most sectors. Call volumes rose strongly, especially in the business area where competition was most intense.

Telecom cut international call rates, stimulating volume growth by 19.6 per cent and leading to a 2.4 per cent gain in income. In the local service market, revenues grew by 5.4 per cent to NZ$42.5m. Revenue from cellular and other mobile services advanced 37.1 per cent to NZ$84.8m due to a strong rise in connections. Earnings from enhanced network services, such as 0800 lines, grew by 37.2 per cent to NZ$57.1m.

Revenues from Pacific Star Group, the Australian subsidiary, and facilities management rose by 78.4 per cent to NZ$262.2m as a result of the growing use of its systems by state governments and leading business customers. Telecom's total operating expenses increased 11 per cent to NZ$2bn due to costs associated with business growth, especially in Australia. The company declared a final dividend of 9.5 cents a share, making 35 cents for the year. Mr Roderick Deane, chief executive, said the company was considering a share buy-back. *Terry Hall, Wellington*

Nampak ahead despite sales slip

Nampak, the South African paper and packaging group, reported a 17 per cent increase in attributable earnings to R263.6m ($61.73m) for the six months to March, from R225.8m a year ago, despite a sharp fall in sales during the second quarter. Earnings per share rose 16 per cent to 51.9 cents a share. The dividend was 13.7 cents, against 12 cents.

Mr Brian Connellan, chairman, described the results as "satisfactory", but warned that earnings growth for the year would not improve in the second half without an improvement in demand. Turnover increased 17 per cent to R3.4bn. Volumes increased by 13 per cent during the buoyant first quarter, but this trend had reversed in the second quarter resulting in overall growth of 3 per cent for the period. *Mark Ashurst, Johannesburg*

Setback seen for Teva MS drug

Teva Pharmaceutical Industries, Israel's biggest pharmaceuticals company, will not get US Food and Drug Administration approval for its multiple sclerosis treatment Copaxone during the next quarter, NatWest Securities said yesterday. One day after Teva said the FDA would make a final decision on the drug in the next quarter, NatWest said that Copaxone was not scheduled on the next FDA advisory panel meeting in June, and a decision would probably be delayed until September.

Analysts forecast that FDA approval of Copaxone will significantly boost Teva's sales, which reached $667.6m in 1995. The company reported first-quarter net income increase of 18 per cent to $22.3m from $18.9m last year. But Mr Dan Suesskind, Teva chief financial officer, said results were "a bit weak" due to seasonal factors and increased competition in the US generic pharmaceuticals market.

First-quarter sales rose 24 per cent to $189.3m from $152.7m last year. Results included sales from recent Teva acquisitions Biogal Pharmaceutical Works of Hungary and ICI SpA, an Italian bulk pharmaceutical manufacturer. In the coming quarter, Teva hopes to boost sales by acquiring Biocraft Laboratories of the US. Biocraft shareholders will vote on the merger on May 31. *Avi Machlis, Jerusalem*

Top Thai banks hit by slowing economy

By Ted Bardacke in Bangkok

Thailand's five largest banks, squeezed by a slowing economy and a sluggish stock market, yesterday reported first-quarter profit growth well below analysts' expectations.

Bangkok Bank reported first-quarter net profit of Bt5.05bn ($199m), up 11.6 per cent compared with the same period a year ago. Krung Thai Bank recorded first-quarter net profits of Bt3.28bn, up 17 per cent over last year, and Thai Farmers Bank first-quarter net profit of Bt3bn, ahead 12 per cent from the same period last year.

Siam Commercial Bank posted first-quarter net profit of Bt2.04bn, a 16 per cent increase, while Bank of Ayudhya came in at Bt1.14bn, up just 2.1 per cent.

These five banks account for nearly 70 per cent of the total assets of the Thai banking system.

"This is pretty mediocre, all under forecast," said Mr Scott Christensen, banking analyst with Jardine Fleming Thanakom Securities. "Deposit growth is robust but loan growth is not keeping pace."

Bangkok Bank, for example, saw loan growth in the first quarter of only 10 per cent, against the same period last year, while deposits grew by 21 per cent.

Siam Commercial Bank was the only exception, reporting 26 per cent growth in both lending and deposits.

Loan growth has fallen as the growth rate of the Thai economy has been slowing since the beginning of the year, the result of an anti-inflationary policy of high interest rates imposed by the Bank of Thailand, the country's central bank.

In addition, a directionless stock market has been prompting investors to place their money in bank deposits, taking advantage of high rates.

Banks have also been told by the central bank to keep loan growth under 21 per cent for the year, maintain a loan-to-deposit ratio of less than 112 per cent and not to dip into their capital base for lending purposes.

Bankers also say that many of the blue-chip companies that are unaffected by the economic slowdown have taken to borrowing directly overseas, benefiting from lower lending rates and a stable currency.

"We are likely to see the same story in the next quarter, until lending rates start falling," said Mr Christensen at Jardine Fleming. Forecasts for the sector would soon be revised downward from the consensus of 17 per cent, he added.

Black consumer demand lifts African Life

By Mark Ashurst in Johannesburg

African Life, the insurance group that contributes more than 70 per cent of the earnings of Real Africa Investments, South Africa's second largest black-controlled conglomerate, posted a 52 per cent increase in recurring premium income to R308.2m ($71.3m) for the year ended March 31.

Analysts applauded African Life's strong performance, which they said reflected sharply increased demand from black consumers for individual life insurance, which comprised R255m of recurring premium income.

About 90 per cent of the company's individual policyholders are black.

Earnings per share rose 25 per cent to 42 cents from 33.6 cents. A dividend of 16.8 cents a share was declared, lifting the final dividend for the year to 28 cents, compared with 21 cents last time. In line with past practice, a capitalisation issue was offered in lieu of the dividend.

Total premium income, which includes non-recurring policies, increased 79 per cent to R527.5m, up from R295.2m. Total assets increased 98 per cent to R1.1bn from R554.3m, exceeding R1bn for the first time, and investment income rose 93 per cent to R84.4m.

Mr Don Ncube, chairman of African Life and Real Africa Investments, said the strong performance reflected a sense of racial solidarity in the company's core market during the three years it had been under black control.

Mr Bill Jack, chief executive, said the results were the first fruits of economic gains among the black population: "There are more people who are entering into circumstances where they feel a need for protection."

The cost of sales had increased by 35 per cent to R94.6m while other expenses rose by 17 per cent to R56.7m, against R48.5m.

This included a 15 per cent reduction in commission-related overheads.

The company had acquired a R40m injection of new capital from the International Finance Corporation, the private sector arm of the World Bank, in July and raised a further R126m from a rights issue at the close of fiscal 1995.

African Life also moved into new sectors of fund management and property development during the period, and had made cross-border acquisitions in Botswana and Lesotho as the first step in its strategy to become a broadly based financial services group operating internationally.

SA Breweries pays more after 29% earnings gain

By Mark Ashurst

South African Breweries, the country's largest industrial conglomerate, posted a 29 per cent increase in attributable earnings to R1.7bn ($393.2m) for the year to March, compared with R1.3bn previously.

After accounting for the conversion of series A preference shares and recent capitalisation awards, earnings per share rose 22 per cent to 566 cents a share from 465.1 cents.

A final dividend of 193 cents a share was declared, boosting the total dividend for the year by 25 per cent, from 200 cents to 250 cents.

Turnover increased by 17 per cent to R32.6bn.

Mr Meyer Kahn, executive chairman, said the results reflected growth of more than 4 per cent in real private consumption during 1995.

Earnings from the domestic beer division, where SAB has a virtual monopoly, increased by 24 per cent, from R806m to R1bn. But this was outperformed by growth of 31 per cent in attributable earnings from international beer interests – in Hungary, China and Tanzania – to R172m, from R131m.

Non-beer interests, which include clothing retailer Edgars, Lion Match and the Southern Sun hotel group, posted a 39 per cent rise in attributable earnings to R488m, which included a 60 per cent increase from Southern Sun.

Higher interest rates had pushed up financing costs, but this was offset by a lower effective tax rate and improved performance from associates. Increased productivity and lower costs boosted trading profit by 18 per cent.

Overall gearing, defined as the ratio of net interest-bearing debt to total shareholders funds, fell from 55 per cent to 39 per cent, as net equity per ordinary share increased by 16 per cent to R18.81.

Cash flow from operations increased by a quarter to R2.9bn. Retained cash, together with R600m released by capitalisation share awards, funded the group's R2.2bn expansion programme, the largest in its history.

Mr Meyer expected a further increase in earnings and dividends in the second half if there were no significant drop in consumer demand.

● JCI, the South African mining and investment company, has acquired a 12 per cent stake in Australia's Kimberley Diamond Co for A$1.1m (US$870,000).

Mayne Nickless warns on after-tax result

By Nikki Tait in Sydney

Mayne Nickless, the Melbourne-based transportation, security and healthcare group, is the latest Australian company to warn of lower-than-expected profits.

In the past week, industrial companies like Pacific Dunlop, Southcorp and Burns Philp have predicted reduced profits. John Fairfax, the country's leading newspaper publisher, delivered a sharp fall in third-quarter profits, and forecast a 20-25 per cent reduction for the full year.

Mayne said yesterday it expected earnings before interest and tax in the 12 months to the end of June to be "in line with last year's results". Last year, Mayne recorded an after-tax profit of A$79.2m (US$62.6m), after a net abnormal charge of A$47.6m.

But it said that after-tax profit before abnormals would be lower than that previously, due to the company's increased investment in Optus Communications; the fact it was no longer capitalising interest on its Optus investment; and the acquisition of Australian Medical Enterprises.

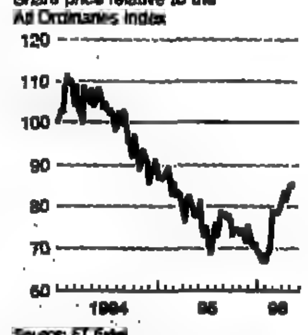
The sale of the UK armoured car unit, meanwhile, would result in "substantial abnormal losses".

Mayne added that its transport operation was being hit by the "difficult trading environment in Australia" and that it faced "continuing problems" at its Benelux Logistics division, in particular at the Temse facility in Belgium.

By contrast, the remaining European and North American activities were performing well, as were the healthcare and the Armaguard units in Australia.

Mayne Nickless

Share price relative to the All Ordinaries Index



Source: FT Extel

Fund managers put takeover spotlight on USAir

With two US investors building stakes, the carrier could be back in play, reports **Richard Tomkins**

It is barely six months since USAir, the US carrier part-owned by British Airways, entered takeover talks with the much larger United Airlines and American Airlines. In the end, the talks came to nothing. But could USAir now be back in play?

At the end of last month, Mr George Soros, the noted US hedge fund manager, disclosed in a Securities and Exchange Commission filing that he had built up a stake of 5 per cent in USAir's series B preferred stock, which converts to ordinary shares at the holder's option. The world did not stand still on the news: on conversion, the stake would give Mr Soros less than 1 per cent of USAir's common stock.

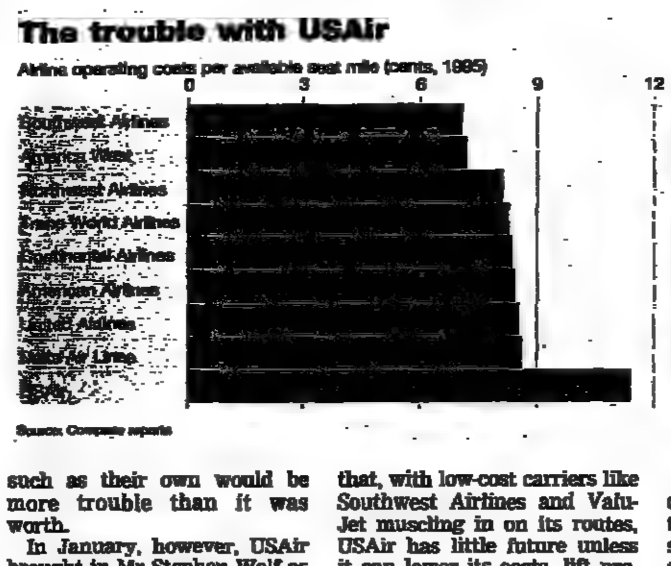
However, it has since emerged that another hedge fund manager, Mr Julian Robertson, has been building up a much bigger position. Mr Robertson, whose Tiger Management vehicle runs one of the largest hedge funds in the US, disclosed in an SEC filing that he had bought 6.9m of USAir's ordinary shares, equivalent to 11 per cent of the outstanding equity.

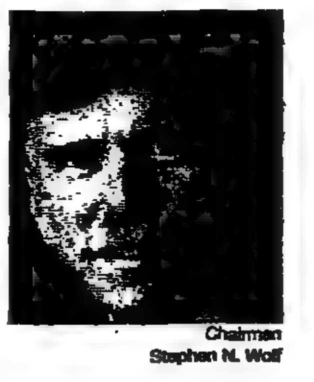
Meanwhile, Mr Warren Buffett, one of the world's most influential investors, said he had offered USAir the chance to buy back his series A preferred stock, convertible to about 10 per cent of USAir's equity. If USAir declines to buy it, Mr Buffett will seek another buyer.

Mr Buffett told shareholders at the annual meeting of Berkshire Hathaway, his investment vehicle, that he wished he had never bought into USAir – memorably adding that he would have been a lot better off if he had "gone to a bar that night instead". USAir's costs were out of line with the rest of the industry's, he said.

Mr Buffett was right. Having failed to win the same labour-saving agreements that other US airlines have secured, USAir has the highest costs of any large US airline. Operating costs last year were 11.4 cents for every seat flown one mile – 35 per cent higher than the average for the nine largest carriers.

This was the main reason why UAL and AMR, parent companies of United Airlines and American Airlines, respectively, backed off from a takeover of USAir last year. They decided that trying to meld such an inefficient organisation with leaner enterprises such as their own would be more trouble than it was worth.




Chairman Stephen N. Wolf

In January, however, USAir brought in Mr Stephen Wolf as chairman and chief executive. Mr Wolf has a reputation for resurrecting troubled airlines, often prior to a sale: Republic Airlines went to Northwest Airlines in 1986, Tiger International (parent of the Flying Tiger cargo carrier) went to Federal Express in 1989, and United Airlines went to an employee buy-out in 1994.

Mr Wolf has recently been warning USAir's employees that, with low-cost carriers like Southwest Airlines and ValuJet muscling in on its routes, USAir has little future unless it can lower its costs, lift productivity, improve service quality, and grow.

USAir needs to grow because its existing route structure, largely comprising short-haul routes on the east coast, is vulnerable to low-cost competition. Mr Wolf says the options for expansion include internal growth, acquiring another airline, being acquired by another airline, or entering some form of partnership.

The hedge fund managers decline to say why they have taken positions in USAir's stock. But Wall Street analysts say investor interest is driven by a belief that Mr Wolf will get the airline into a sufficient state of health to make it a takeover candidate.

"My guess is that he will fix it up over the next two years and sell it, maybe to UAL," says Mr Raymond Neidl, an analyst at Furman Selz. "UAL are still interested, but they can't justify buying it until the problems have been fixed.

"I don't think investors are in it for a quick flip. I think they are looking for a 12 to 24-month situation. It's like a big ship: you can't turn it round on a dime."

The downside risk is that USAir will neither be put in play nor restructured.

"Then the risk is that you go into some kind of recession in which USAir, with its very high cost structure, suffers disproportionately to the rest of the industry and incurs steep losses," says an analyst who asked not to be identified.

Apparently, this is a thought that haunts Mr Buffett more than it does the hedge fund managers. One worry that underpins it is an agreement that gives USAir's pilots, the most expensive part of the workforce, protection from job losses until July 1997, leaving Mr Wolf short on bargaining clout in the meantime.

Still, Mr Buffett is prepared to admit he may be wrong. In his latest annual report, he tells Berkshire Hathaway's shareholders that "your guess is as good as mine" as to USAir's ultimate value.

"Indeed," he added, "considering my record with this investment, it's fair to say your guess may be better than mine."

Vitro hit by Anchor Glass charge

By Daniel Dombey in Mexico City

Vitro, Mexico's largest manufacturer of glass, announced a fall in sales for the first quarter of 1996. The downturn was caused by a lower level of activity by the company's troubled US subsidiary, Anchor Glass Container, and the effect on exports of a significant appreciation of the peso.

The company released results late because of the restructuring of Grupo Financiero Serfin, in which it holds 20 per cent.

Serfin, which this week announced a sale to the government of 20bn pesos in poor quality loans and a 10bn peso capitalisation programme, declared a net loss for the quarter following further past-due loan provisions that anticipate tougher accounting rules early next year.

For the first quarter, Vitro registered sales of 5.2bn pesos ($686m), an 8.7 per cent fall on the same period in 1995.

Though exports were up 11 per cent at $136m, the increase was not great enough to offset the continuing weakness of the Mexican economy and the downsizing of Anchor Glass.

Operating profits dropped 61.3 per cent to 436m pesos, a fall the company mostly attributed to a restructuring charge at Anchor Glass and the strong peso.

However, the effect of the peso revaluation pushed net profits up to 373m pesos, compared with a loss of 479m pesos for the first quarter of 1995.

The company, which has one of the highest levels of peso debt in Mexico, said it was committed to maintaining its debt-to-equity ratio within current limits.

Though Vitro is likely to participate in Grupo Financiero Serfin's recapitalisation programme, the company said that it would dilute its holding in the financial group.

Grupo Financiero Serfin, which operates Mexico's third-largest bank – recently placed under new management – announced a loss of 1.26bn pesos for the quarter, compared with a profit of 208m pesos for the same period in 1995.

The company is entering into its second capitalisation programme in 11 months, committing itself to an injection of new capital of $1.3bn.

Buffett group ahead in first quarter

By Maggie Urry in New York

Berkshire Hathaway, the insurance and investment group headed by Mr Warren Buffett, yesterday reported a sharp rise in first-quarter earnings. However, the company, whose chairman is known for plain-speaking, said the figures were "meaningless in evaluating the company or charting its progress".

The group's A shares fell $500 to $34,700 in morning trading, while the newly-issued B shares, equivalent to one-thirtieth of an A share, fell $20 to $1,160.

However, the shares have been firm since the issue of B shares last week was priced at $1,110.

First-quarter earnings were heavily distorted by the gain the group realised when Walt Disney acquired Capital Cities/ABC, the media group in which Berkshire had held 20m shares. A realised gain of $1.5bn after tax in the quarter largely reflected that takeover, and in turn was the main cause of a rise in net income from $139m to $1.67bn.

Berkshire's balance sheet had already taken account of the rise in value of the Capital Cities stake, since investments are carried at market value in the books. However, under accounting rules, the gain is taken through the profit and loss account only when it is realised.

The figures were also affected by Berkshire's purchase of the 49 per cent of Geico, the insurance company, which it did not already own at the start of the quarter. As a result, the 1995 first-quarter figures were restated to include Geico as an associate rather than an investment.

Earnings from operations increased from a restated $144m to $160m.

Earnings per share from operations increased from $122 to $134, while earnings including the investment gain were ahead from $118 to $1,398 per share.

American Express expands services

By Richard Waters in New York

American Express continued its push in to new, faster-growing parts of the financial services business yesterday with the announcement of a range of investment, cash management, savings and insurance products.

The move will take the company into the provision of low-cost investment services, a business dominated by names like Charles Schwab and Merrill Lynch. It also serves as another sign of a new approach at American Express, aimed at developing and extending its brand.

The group said it had created a division, American Express Financial Direct, to sell low-cost products to individuals who do not need a financial adviser. It already has one of the country's biggest financial advisers' groups, which recently gave up its name, IDS Financial Services, to adopt the American Express brand in its title.

The new unit will sell "no-load" mutual funds, a fast-growing part of the funds industry where investors do not face the usual "load", or up-front fee, that comes with investing. It will also offer discount stockbroking, a money market account on which customers can draw cheques, and annuity products.

American Express has previously limited its brand to products created in-house, with its traditional charge card as the core. In an attempt to put itself back on a growth track that deserted it at the end of the 1980s, the company is now tying its name to a wider range of products and embracing alliances with other financial services providers – a move that would have been unthinkable under earlier managements.

The new unit will sell a range of mutual funds managed by three other companies, as well as those managed by the former IDS.

The creation of Financial Direct is an attempt to bridge the division between the established cards and financial advisory businesses, American Express said. While investments will be managed by the financial advisory unit, its marketing will founded on the group's database of card members.

NEWS DIGEST

Callan Associates forms UK alliance

Bacon & Woodrow, one of the UK's largest actuarial consulting firms, is to form an alliance with its largest US counterpart in a move which recognises the growing internationalisation of pension fund investment.

The alliance is with Callan Associates, the largest actuarial consultancy in the US. Together the two firms will be advising nearly 700 clients with an aggregate of $500bn in assets under management. The move follows the recent merger of R. Watson and Co of the UK and Wyatt Co into an international investment consulting practice.

US pension schemes have in recent years sharply increased their investment in non-domestic assets, particularly in equities. That trend has raised demand for advisory services on manager selection in foreign markets and in asset allocation between various markets.

Meanwhile, UK pension schemes are increasingly adopting some of the approaches of US schemes towards so-called specialist managers, while fund managers are adopting the quantitative techniques for asset allocation and stock selection used by their American counterparts.

Bacon and Woodrow is part of Woodrow Milliman, the international network that operates out of 22 countries.

Under the agreement currently under discussion, the two firms will retain their independence and will market their services under their own names. However, they will have access to each other's databases and local market knowledge. Both firms plan significant investment in information technology so that they can integrate their data more easily.

Norma Cohen

Magna in German acquisition

Magna, the Canadian-based producer of car parts, is expanding further in Europe by buying Germany's Pebra Paul Braun for C$31m (US$22.7m) cash.

Pebra, now in receivership, makes body components. Magna will put $250m of business into Pebra in 1997, based on orders from five leading European carmakers. Pebra plants in Canada, Brazil and France are excluded from the deal.

In March, Magna bought the parts business of Marley, of the UK, for $100m. It plans to acquire a European seat manufacturer later this year.

Robert Gibbens, Montreal

Grupo CB plans stock sale

Grupo CB, the holding company for Cruz Blanca and other Chilean insurance, real estate and financial interests, plans a $90m capital increase through a stock sale. The company has retained Bankers Trust to carry out the sale, through a capital increase, of a minority percentage of CB Prevision y Capitales. This unit includes Cruz Blanca's health and life insurance units, as well as financial company CB Capitales e Inversiones and private pension interests in Argentina, Peru, Colombia and Bolivia.

Funds raised will help finance the company's expansion plans in Chile and elsewhere in South America.

Grupo CB reported net profits of 11.02bn pesos ($27.4m) in 1995, up from 9.66bn pesos in 1994. Its operating results rose to 10.04bn pesos last year from 3.48bn pesos in 1994, the company reported in February.

Reuter, Santiago

Peak profits for Campbell Soup

Campbell Soup reported record third-quarter earnings and said it was on track for another successful year. The US company, whose products include soups, Pepperidge Farm and Arnotts bakery goods as well as Godiva chocolates, reported earnings of $145m, or 58 cents a share, against $127m, or 51 cents a year earlier. Sales rose to $1.83bn from $1.74bn last year.

"We are on track for another winning year," said Mr David Johnson, president and chief executive officer. "Soup sales were again up strongly in both the US and internationally. Double-digit gains in sales and earnings by Pace Mexican Sauces marked the first anniversary of our acquisition of this great brand leader."

US sales for the quarter rose 8 per cent to $1.1bn from $1.02bn last year, while operating margins jumped 19 per cent to $204m.

The international grocery division reported sales of $359m, up from $342m, but its operating earnings fell 15 per cent to $27m because of the sale of Campbell's frozen vegetable business in Europe.

Reuter, New Jersey

Williams expands with FFr1.38bn Sicli buy

By Tim Burt

Williams Holdings, the diversified UK industrial group, yesterday announced its biggest acquisition in more than five years with the FFr1.38bn ($260m) takeover of the Sicli Group, France's largest fire protection and rescue vehicle company.

The UK group has agreed to pay FFr1.05bn cash for Sicli's fire extinguisher arm and FFr330m for Sides, the French company's fire and rescue vehicle subsidiary.

Mr Roger Carr, chief executive, said: "The acquisition of the Sicli and Sides businesses provides a major step forward in the European expansion of our fire protection business."

Williams already has 70 per cent of the US market for fire extinguishers and a 20 per cent share of the UK industry.

Yesterday's deal will give it a commanding presence in France. It should also reduce Williams's dependence on building products to less than 50 per cent of group turnover for the first time.

Mr Carr said there was scope for cost-cutting at Sicli, where he described the management as disenchanted by the sale process. Sicli's venture capital backers have been seeking a buyer for some time. Some industry analysts claimed those backers decided to sell because they were dissatisfied with the company's debt repayment record following the FFr2bn leveraged buy-out six years ago from Nu-swift, the UK fire extinguisher manufacturer.

Nevertheless, Williams said the businesses remained profitable. Last year, the fire extinguisher and detection subsidiary – also called Sicli – made operating gains of FFr118m, while Sides reported profits of FFr36m on combined sales of FFr1.33bn.

Williams's shares closed up 7p at 329p after the group predicted the deal would be earnings enhancing from the outset.

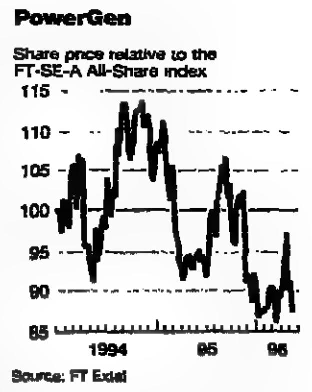
Williams is funding the acquisition mostly through additional borrowing, which would lift gearing to more than 90 per cent on net debts of about £275m.

However, Mr Carr said year-end gearing could fall to less than 50 per cent following non-core disposals and strong cash generation. He confirmed that Williams was seeking a buyer for its electronics businesses.

Industry analysts suggested the disposal could raise £70m.

LEX COMMENT

PowerGen



PowerGen's management – one. Shareholders – nil. That may seem a grudging verdict when the company has just produced a sparkling set of results, a 40 per cent dividend increase and a £400m share buy-back. But PowerGen's new strategy still begs too many questions. The problem is that it is simply passing through the cash from selling its stakes in Midlands Electricity and National Grid: the buy-back is far too puny to get the company's balance-sheet into tauter shape. Why does management want to keep interest cover at an absurdly inefficient nine times? Because it wants a free rein to launch exciting acquisitions. Of course no-one will object if the company can pull off good deals. But it is extremely difficult to see where it will find them. PowerGen talks wistfully of the next government letting it buy a regional electricity company after all, but this looks far-fetched. In the UK, that leaves nothing big to which it could plausibly add much value. True, there are plenty of opportunities abroad – and so far, the generators seem not to have thrown money into black holes as the water companies have done. On the other hand, intense competition has driven returns down: arguably, if PowerGen can outbid high-rolling US competitors, it is overpaying by definition.

The risk is that, facing pressure on its margins at home, the company will be panicked into boosting profits at any price. To avoid this, shareholders should press for a bigger chunk of cash. This would not only enhance earnings *but also instil* some discipline on a potentially extravagant management.

Bank of Ireland rings in changes

By George Graham, Banking Correspondent

Direct telephone banking around the clock arrives this month in Ireland when Bank of Ireland launches a new service.

The bank, the second largest in Ireland and which yesterday announced a 14 per cent increase in profits before tax and exceptional items, has been selling insurance and mortgage products by telephone and runs a daytime telephone service centre.

Bank of Ireland hopes its 24 hour service, Banking 365, will help increase its presence in Northern Ireland, where it commands only about 15 per cent of the banking market, compared with a 40 per cent market share in the Republic.

Allied Irish Banks, which already operates a telephone banking service, is expected to extend its hours shortly.

Bank of Ireland said pre-tax profits in the year to March 31 fell to I£315.6m (£306m) compared with I£321.6m in 1995.

That figure, however, included a I£48.1m charge related to goodwill previously written off at First NH, the group's New Hampshire banking subsidiary, acquired as a result of its merger with Citizens Financial, a subsidiary of Royal Bank of Scotland.

Excluding exceptionals, earnings per share rose 18 per cent to 51.6p. The dividend goes up 22 per cent to 15.35p after a final of 10.25p.

The shares slipped 4p to 467p.

Ashley Ashwood

Maurice Keane: margin pressure in UK home loans business has been compensated for in volume

Bank of Ireland agreed last month to buy Bristol & West, the ninth largest UK building society, for £600m.

That deal, however, is unlikely to be completed before May 1997 and will not show up in the accounts for another two years.

Mr Maurice Keane, deputy group chief executive, said profits had fallen in only one division – Bank of Ireland Mortgages, the UK subsidiary which sells home loans through intermediaries.

"We have seen margin pressure across the business, but that has been compensated for in volume," he said.

PowerGen will return to takeover trail

By Simon Holberton

PowerGen, the electricity generator, yesterday unveiled a 40 per cent increase in dividend and a £400m ($608m) buy-back of 10 per cent of the company.

However, investors were still disappointed.

The company also announced a 26 per cent rise in pre-tax profits.

Although the shares rose initially, they ended the day 10p lower at 537p. Some analysts said the company should have returned more cash to investors through a special dividend.

However, Mr Ed Wallis, the chief executive, signalled his intention to return to the takeover trail in spite of the government's refusal to sanction PowerGen's £1.9bn bid for Midlands Electricity, the power distributor.

Mr Wallis cited the company's low gearing as providing a base from which to consider future acquisitions.

These would be considered where they enhanced earnings per share over and above an enhancement that would come from PowerGen buying back its own shares.

"We are prepared to look at any sensibly sized acquisition," he said.

Analysts said that with investment in regional electricity companies ruled out for PowerGen, the company might attempt to deepen its involvement in the gas industry. It already has a £400m upstream gas business.

Analysts cited independent oil and gas producers as possible targets, although it is understood PowerGen has not identified candidates.

Mr Wallis also said PowerGen would only proceed with the sale of 2,000MW of generating capacity to Eastern Group, part of the Hanson conglomerate, after it had obtained clarification about competition policy from the government and Offer, the industry regulator.

Industry observers believe PowerGen is likely sell the plant to Eastern, the highest bidder.

PowerGen's pre-tax profits in the year to March 31 rose from £545m to £687m. This was after a 2 per cent rise in turnover from £2.88bn to £2.93bn.

Profits were boosted by a £121m write-back of previous provisions. Excluding this exceptional credit, profits were up 4 per cent to £566m. In 1995 there were no exceptional credits or charges.

The figures also included a change in depreciation which resulted in extra charges of £57m. PowerGen will pay a final dividend of 14.5p which makes a total of 21p for the year – a rise of 40 per cent.

Dividends will be covered 3.7 times by profits, while interest on borrowings will be covered eight times.

PowerGen plans to conduct some of its proposed buy-back in the coming months. A portion of the programme will be deferred until after September, when all the company's shares become fully paid and eligible for buy-back.

P&O sells Modern Terminals stake for HK$768m

By Geoff Dyer

P&O has sold its 5 per cent stake in Modern Terminals, a Hong Kong container terminals company, for about HK$768m ($100m).

The shipping, property and construction group said it would use the funds from the sale of the shares back to MTL to invest in other container terminals, particularly in the south China area.

It also said the sale was part of a policy of reducing minority interests in operations where it does not have a management contract.

MTL has a six-berth facility at the Kwai Chung container terminal in Hong Kong.

The company's principal shareholder is Wharf Holdings, the Hong Kong property and infrastructure conglomerate.

At one stage P&O had a 23 per cent stake in MTL but has reduced its investment over the last five years.

It said it had made a book profit of £3.6m on the transaction.

The group is expected to give details at its annual meeting on Friday of some of the asset sales it has agreed so far this year.

At its results in March P&O said that disposals worth £200m had been negotiated, £100m of which were property sales.

AIB lifts stake in Polish bank

By George Graham

Allied Irish Banks will boost its stake in Wielkopolski Bank Kredytowy, the Polish regional bank, to 36.3 per cent after winning a tender to buy a 20 per cent holding from the Polish government for I£38m ($59m).

AIB paid I£12.7m for its original 16 per cent stake in WBK when it underwrote an under-subscribed share issue in 1995.

It has an option to acquire a further 23.9 per cent from the European Bank for Reconstruction and Development, starting next January and running for three years.

WBK is headquartered in Poznan and has 49 full branches. Although London bank analysts regard it as still heavily overmanned, with more than 4,000 employees, it boosted pre-tax profits last year by 44 per cent to 200.7m zlotys, according to international accounting standards. Its total assets amount to 4.16bn zlotys.

The Polish state treasury still holds a 5 per cent stake.

AIB's purchase price of 11.5 zlotys per share is equivalent to 6.4 times historic earnings.

Mr Tom Mulcahy, AIB group chief executive, said he was very pleased that his company had been selected by the Polish finance ministry to buy the 20 per cent stake. "We feel that this decision is a significant recognition of AIB's contribution to date as a minority shareholder in WBK," he said.

AIB is already represented on WBK's board, and has been helping the Polish bank with efforts to streamline its structure and develop new financial products.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Appleby Westward §	Yr to Feb 28	81.3	(78.3)	0.173♠	(0.258L♠)	0.2L	(3.6L)	5.8	July 1	5.6	9	9
Argyll	Yr to Mar 30	6,069	(5,815)	429.4♥	(175.5♠)	35.4	(8.3)	8.7	Aug 6	8.1	12.75	12
Bank of Ireland ‡	Yr to Mar 31	-	(-)	315.8♠	(321.6)	41.5	(44.2)	10.25	July 12	8.25	15.25	12.5
Brancote Φ	Yr to Dec 31	0.074	(0.103)	0.188L	(0.071L)	1.97L†	(1.04L)	-	-	-	-	-
Celltech	6 mths to Mar 31	9.5	(7.2)	3.7L	(4.1L)	5.2L	(6.2L)	-	-	-	-	-
Century Inns	6 mths to Mar 31	10.6	(10.6)	3.32	(1.87♠)	6.3	(-)	1.25	Aug 15	-	-	-
Charles Sydney	6 mths to Feb 29	117	(59.9)	2.41	(1.59)	4	(3.6)	1.4	July 16	1.3	-	3.7
Chemex Intl	6 mths to Mar 31	0.847	(0.734)	0.084	(0.071)	0.21	(0.18)	-	-	-	-	0.15
Commercial Union	3 mths to Mar 31 ★	2,467■	(2,305■)	105	(112)	8.8	(11.8)	-	-	-	-	28.25
Greenalls	6 mths to Mar 29	544.9	(361)	27.1♠	(39.6)	7.93†	(14.51)	6.22	July 5	5.76	-	14.2
Perpetual	6 mths to Mar 31	710.9	(545)	20.2	(17)	82.78	(44.31)	18	July 1	11	-	40
PowerGen	Yr to Mar 31	2,933	(2,885)	687♥	(545)	71.4‡	(49.5)	14.5	July 31	10	21	15
Richards	6 mths to Mar 31	32.9	(35.7)	0.511L	(0.405♠)	2.45L	(1.32)	1.07	July 1	1.07	-	2
Shaftesbury	6 mths to Mar 31	4.67	(4.52)	1.76	(1.85♥)	3.6	(3.8)	0.75	July 5	0.5	-	1.5
Tadpole-Technology	6 mths to Mar 31	13	(11.4)	1.88L	(5.94L♠)	8.3L	(23.7L)	-	-	-	-	-
TeleWest	3 mths to Mar 31	65.2	(26.4)	53.4L	(17.8L)	5.6L	(2.1L)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fleming Chinese	6 mths to Mar 31	86.8	(85.29)	0.023	(0.076)	0.04	(0.13)	-	-	-	-	0.5
Fleming Euro Fledg	Yr to Mar 31 ★	142.9	(100.8)	0.236L	(0.192)	0.44L	(0.37)	nil	-	nil	nil	nil
Throgmorton Dual		-		-		-		1.75♦	Aug 1	1.75	-	7.1

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. §USM stock. ♠After exceptional charge. ♥After exceptional credit. ‡Irish currency. ΦAim stock. ★Comparatives restated. ■Total premiums. †On increased capital. ‡On reduced capital. #At September 30. ♦Third interim; makes 5.25p to date.

Vanessa Houlder reports on the changing relationship between the space industry and terrestrial technology

Spin-offs in orbit

An AEA Technology cosmic radiation monitor in use on the shuttle. A version has been developed for commercial aircraft

From microwave ovens to medical imaging, many common technologies have been profoundly influenced by space research.

Enthusiasts for space exploration have long argued that spin-offs from space missions have transformed modern life. "The technology base that we stand on today was in almost all respects accelerated by the Apollo programme," according to Harrison Schmitt, former US senator and ex-astronaut.

Some industries, such as communications, remote sensing and meteorology, continue to draw directly and extensively from the space industry. But the relationship between the space industry and terrestrial technology is changing.

The transfer of technology between space and terrestrial industries is no longer so much of a one-way affair. "Space is less and less a pioneer that spins technology off for the ground," says Geoffrey Hall, of Moreton Hall Associates, a consultancy.

Budgets for space missions have been pared down, forcing space agencies to be more flexible in sourcing technology. At the same time, they have been able to find relevant technology in terrestrial applications, as non-space technology has become more sophisticated.

"There is software in children's electronic toys that could be used directly in space," says Hall. He is carrying out a study of the convergence between space and terrestrial technology for the European Space Agency.

Increasingly, the space industry is using proven technology when it can stand up to the extreme temperatures and environment of space. It is also jointly working on areas where the ambitions of space technologists coincide with those of other industries in areas such as miniaturisation, data transfer, long-lasting compact batteries and artificial intelligence.

An example of this two-way exchange of expertise is provided by Aromascan, a Crewe-based manufacturer of artificial nose sensors. It benefited from ESA support at the research phase, when it was designing a sensor to go into space to monitor air quality on the Mir space station. That has helped it produce sensors for other tasks ranging from coffee analysis to monitoring wound infections.

Space may be less of a pacemaker for innovative technology than it used to be, but indirect spin-offs from space technology have not dried up completely. A survey commissioned by the UK Department of Trade and Industry's National Space Centre last year showed that nearly a third of the companies involved in UK space research had been successful in finding secondary applications for the sensors, materials, software and other technology developed in support of space programmes.

Some 30 companies had found ways of using their technology for applications such as banking, offshore oil industry, surgery and number-plate recognition.

Some of these researchers are intent on translating spin-off technologies into an independent business. For example, Tony Anson of the Brunel Institute for Bioengineering at Brunel University, has formed a business based on commercial applications for nickel titanium shape memory alloys which were developed to move optical mirrors for an automated biological laboratory in space.

These alloys, which can remain bent out of shape until they reach a certain temperature whereupon they "remember" their original geometry, have intriguing applications in medicine. They can, for example, staple together broken bones or clear a blockage in an artery, by changing their shape when they reach blood temperature. The company, called Anson Medical, is in the process of raising £500,000 in anticipation of commercialising its products in the next few months. Its business plan anticipates a company valuation of £15m within five years.

Anson Medical received financial support and advice from ESA to develop these staples, as part of ESA's space commercialisation programme that started in 1991.

ESA's space commercialisation programme has two strands. One, called Spacelink, is designed to stimulate terrestrial use of this technology. "The economic benefits of space research can be secured only by encouraging industry to absorb the technical advances achieved and then recycling them in a wide range of productive applications," it says.

Another is the Radius programme set up to exploit microgravity, the near-weightless environment when a spacecraft is in orbit. Its goal is to send experiments into space investigating topics such as protein crystallisation, purification using electrophoresis, catalysis using zeolite (a material based on aluminium silicate) and osteoporosis.

So far, two Radius projects have flown on the space shuttle; a third is due to fly on Sunday. One of the forthcoming experiments will take place next year when Elf Aquitaine plans to use microgravity to achieve a better understanding of thermodynamic modelling of oil reservoirs.

These experiments would be unlikely to be undertaken if companies had to bear the cost. ESA, which is contributing Ecu1m (£780,000) to the programme, has negotiated access to the shuttle. But the full costs of sending a load on the shuttle vary from $50,000 to $200,000 per kg; the typical Radius experiment is 50 kg.

Philippe Willekens of ESA's Commercialisation office hopes that the programme will be self-sustaining after a three-year trial phase, during which time companies contribute time but no money, and a three-year pre-commercial phase when companies pay between 10 and 30 per cent of full costs.

Even now, however, there is limited enthusiasm from companies wanting to use the Radius programme. Oil companies have been the most keen to take part; pharmaceutical companies, with a few exceptions, have shown little interest. Willekens says he is unconcerned. "Our choice was to diffuse information to companies that have shown an immediate interest, which will then create a snowball effect," he says.

The Spacelink Europe technology transfer programme is also building up relatively slowly. So far, it has achieved 21 technology transfers: nine in software, five in new materials, four in biomedical instrumentation; two in biochemicals and the environment and one in telecoms.

It would not be hard to find reasons why space technology is not easily transferred to terrestrial applications. It is partly because the cost of devices produced for space are high, not least because of the standards imposed by space agencies. A device that has been manufactured in very small quantities to very high standards may need to be redesigned to make it suitable for mass production.

Another reason is ambivalence on the part of space companies, according to John Rootes, managing director of JRA Aerospace & Technology, a technology broker that is part of the Spacelink Europe consortium. Adapting technology for another market is a distraction from the company's core business.

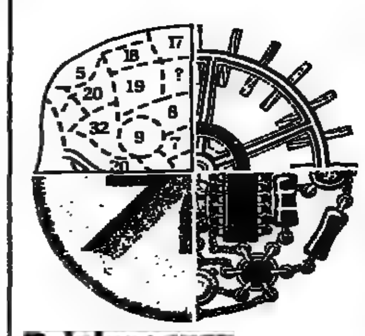
Some space companies are prepared to examine non-space applications themselves. Matra Marconi Space, for example, has explored cereal analysis, exhaust emission analysis and medical diagnosis as applications for its passive microwave detector technology. But many companies are reluctant to divert resources.

That is why the Spacelink programme aims to act as an intermediary between the originator of the technology and a company that could develop it commercially. Technology brokers such as JRA promote promising technology via the internet and through catalogues.

Anne-Marie Hieronimus-Leuba, director of commercialisation at ESA, acknowledges that the transfers achieved to date are modest. The programme has so far cost Ecu8m and generated financial revenues from fees for brokers and donors of Ecu1.2m. But she points out that transfers take a minimum of three years to complete and a further two to three years to reach full industrialisation.

As the programme reaches maturity, the benefits of space technology will become more evident close to home, she says. "I am sure that within three years, we will have multiplied the number of transfers by 20-plus and increased profits much more."

Worth Watching · Andrew Baxter



Painless way to view LCD

Trying to view a liquid-crystal display (LCD) from an acute angle can be a pain in the neck as one cranes to get a better view while the picture fades into invisibility.

In a conventional LCD, the liquid crystal molecules are sandwiched between thin polymer surfaces that have been rubbed in one direction with a velvet cloth. This helps them change their orientation en masse in response to an electric field, but also produces dust and limits the viewing angle.

New research by Martin Schadt and colleagues from Basle-based Rolic, reported in this week's Nature, has overcome both obstacles.

They have developed a "rubbingless" alignment method in which the surface properties of the polymer films are modified by illumination with polarised ultraviolet light. This can be used to vary the alignment of the molecules within individual pixels, and to "tune" the angle of tilt between the long molecules and the polymer surface.

Rolic: Switzerland, tel 616884584; fax 616881466.

Inferno called to the bar

British Steel has developed a new computer-based system which allows a furnaceman to "see inside" furnaces used to reheat billets for rerolling into high-quality bar.

Provisionally named Inferno, the system is a significant advance on previous monitoring and control methods, as it provides an on-line method of predicting reheating performance and regulates furnace conditions to achieve the desired results. The predictive information includes real-time furnace conditions and a model based on historical data.

British Steel: UK, tel (0)1709 371234; fax (0)1709 826233.

Blue-green lasers show test of time

Tiny lasers are used in compact-disc players and CD-Rom drives to detect digital information, and the amount of data that can be crammed on to a CD depends on the colour of the light used to retrieve it.

Blue-green lasers can pack in at least twice as much information as the infra-red lasers in today's CD players, but until now the lasers have been shortlived.

Now experts from Sony's Yokohama research centre, writing in the Institution of Electrical Engineers' Electronics Letters, report that they have made a blue-green laser which operated at room temperature for more than 100 hours, 10 times longer than earlier lasers using the same materials.

Contact David Dowle at IEE, e-mail ddowle@iee.org.uk

Under control with low-cost micro

A low-cost micro control system, the size of a personal CD-player, has been developed by Siebe subsidiary Foxboro for handling virtually any control requirement in factories and automated commercial buildings.

The "open modular controller" also serves as a communications module which links PLCs (programmable logic controllers) into information networks. This, says Siebe, will allow islands of automation in plants to be networked into an integrated information system.

Foxboro: UK, tel (0)1293 526000; fax (0)1293 541312.

Metal wrap shed for nylon coating

Automotive cables, such as those used for the throttle or gear linkages, are normally protected by a coating of polytetrafluoroethylene (PTFE) and an overwrap of closely wound steel. PTFE Fabricators, part of Glynwed's pipe systems division, has come up with a way to overcoat a PTFE extrusion with a thin layer of nylon, reducing the overall weight and the cost by removing the need for the expensive metal outer wrap.

PTFE Fabricators: UK, tel (0)1462 485500; fax (0)1462 440042.

COMMODITIES AND AGRICULTURE

'Indian buying opens silver gap'

By Kenneth Gooding, Mining Correspondent

India and Mexico had a big impact on the global silver market last year, as did the speculators who seem to determined to drive the price up to US$8 a troy ounce, according to the latest survey from the Washington-based Silver Institute.

The institute says that India's impact on the world market for silver in the 1990s has been remarkable. "After a generation in which it was essentially a dishoarder of the metal, often in large quantities, it has imported 405m ounces [12,600 tonnes] in the last six years." Annual demand for silver in India, at least at present prices, is well established at 75m to 100m ounces (2,400 to 3,200 tonnes), it points out. Only Japan and the US use more silver.

Gold Fields Mineral Services, the consultancy that compiled the survey, suggests that: "It is this sudden arrival of India as a major consumer that has opened up the supply-demand gap [in the silver market]."

For the past seven years silver demand has outpaced conventional supply (mined silver and scrap). GFMS estimates that last year the gap was 154.8m ounces.

That was slightly smaller than the 187.4m-ounce gap in 1994 because, although there was a slight rise in mine production (by 25.1m ounces to 468.8m) after four years of decline and while demand in most sectors was strong, there was a steep fall in silver coin fabrication, which dropped by 44 per cent in 1995 to 22.9m ounces, its lowest level since 1989.

Mexico accounted for more than half of the global fall. It minted only 570,000 ounces of silver coins last year, compared with about 13m ounces in 1994.

The supply-demand gap was filled mainly by sales from stocks. GFMS says implied disinvestment last year was 123m ounces, down from 158.6m. It estimates that stocks in the hands of dealers or at exchanges have fallen by 350m ounces (10,900 tonnes) since 1990 and stood at just over 650m ounces (20,000 tonnes) at the end of last year – enough to meet the present supply-demand gap for another four or five years.

"The debate on the level of stocks is now crucial to the future of the silver market," the survey insists, "as some speculators have been building positions in recent years. The issue is going to be how long they are prepared to retain those positions and whether, if they do, it will drive the silver price towards the $8 price they are thought to have targeted."

While speculators helped to push the silver price briefly through the $6-an-ounce barrier for the first time in six years in 1995, the average London spot price of $5.197 was marginally below the 1994 average.

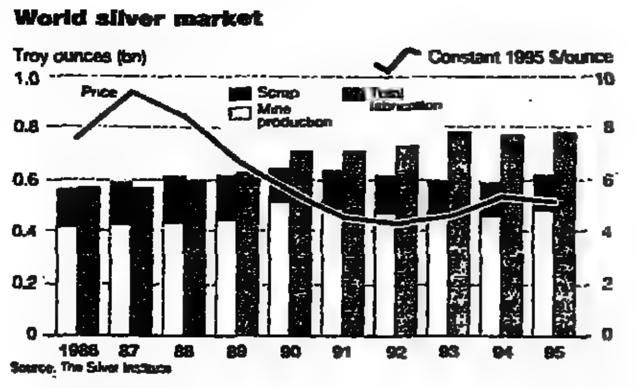
Scrap – mainly generated from the efficient recycling of the metal used in photography – is now an important component of the silver supply total and fills nearly 20 per cent of demand. GFMS suggests, however, that the price would have to move to well in excess of $6 an ounce to cause any substantial extra recycling of either trade or consumer stocks of the metal.

GFMS estimates that demand for silver from the industrial and decorative sector (mainly electrical and electronic applications) last year reached 291.2m ounces, 11.4m ounces above the 1994 level. Jewellery and silverware demand was up by 6m ounces to 228.2m ounces and demand from the photographic industry recovered from recession to reach 222.1m ounces, up from 211m.

The survey suggests that silver "has, in a sense, found a new role, not so much as a precious metal, but as an indispensable one".

World Silver Survey 1996: US$70 or £45 from GFMS, Greencoat House, Francis Street, London SW1P 1DH, England, or from the Silver Institute, 1112 Sixteenth Street, NW, Suite 240, Washington, DC 20036, USA.

World silver market



Source: The Silver Institute

ERA to lift uranium production

By Nikki Tait in Sydney

Energy Resources of Australia, part of the Melbourne-based North group, said yesterday that it had received final approvals to expand mining at its existing Ranger uranium mine in the Northern Territory.

The go-ahead for the mining of the "Ranger Orebody 3" - which lies within the existing Ranger mine lease boundaries - from the territory government should significantly extend the mine's life. Proven and probable reserves in the new orebody are estimated at 56,615 tonnes of uranium. ERA plans to mine by open-cut methods, and will start production from the orebody in July next year.

The expansion of Ranger comes as ERA is also seeking develop a new underground mine, fairly close to the existing mine facilities. The move is highly controversial, with both anti-nuclear lobbyists and environmentalists strongly opposed. ERA had previously been unable to develop a new mine, given the Labour federal government's restrictive "three mines" policy. The election of a new conservative coalition government in March meant that the policy was overturned. The new federal environment minister is now assessing ERA's plan.

Agreement 'close' on Western Australian iron ore project

By Nikki Tait in Sydney and Laura Tyson in Taipei

Trading in the shares of Kingstream's, the small Perth-based exploration group, was suspended yesterday, as the company said it was close to an agreement with Taiwan's An Feng company on the development of its A$1bn-plus (US$800m) Mid-West iron and steel project, near Geraldton.

If successful, the negotiations could bring a second major iron ore processing operation to Western Australia.

In a statement to the stock exchange, Kingstream said that final talks with the potential Taiwanese investor were due to take place today and could result in an agreement being signed tomorrow.

The An Feng group, based in the southern port city of Kaohsiung, includes listed Feng An Metal Industrial, one of Taiwan's largest steel-makers. The group does not have a fully integrated manufacturing facility in Taiwan and is seeking to secure a steady supply of raw material, which it processes and sells to downstream customers.

If the joint venture deal went ahead, it would probably see An Feng taking a 70 per cent stake in the project, with Kingstream holding the balance. The project would be looking to produce 2.4m tonnes annually of carbon steel slabs, with An Feng entering a "take-or-pay" contract to acquire Kingstream's share of output.

The Taiwanese group would also "assist" in providing equity finance for the project and arrange debt-funding. Kingstream did not put a figure on the development cost, but this is thought to be between A$1.2bn and A$1.4bn.

The Mid-West proposal is one of half a dozen iron-ore processing projects being mooted for development in Australia's resource-rich Pilbara region at present. All are seeking to capitalise on the forecast increase in Asian demand for steel and steel-making products into the next century.

To date, however, the only project to get a firm go-ahead has been BHP's new direct reduced iron plant at Port Hedland. The A$1.5bn facility was approved last year, and is due to produce 2m tonnes a year of hot briquetted iron, which then could be sold to Asian customers and fed into the new generation of electric arc furnaces.

A feasibility study on the Mid-West project started a couple of years ago and was completed at the end of 1995. If the project goes ahead, it would utilise iron ore deposits at Tallering Peak, to the north-east of Geraldton. DRI technology would then be used to convert iron ore into feedstock for a local electric furnace facility.

Shares in Kingstream were 3 cents down at 78 cents when suspended.

Iron Ore Company of Canada will quickly resume normal operations at its Quebec-Labrador mines, concentrators and pellet plant following a 77 per cent union ratification of a new three-year contract, writes Robert Gibbens in Montreal.

The IOC operations were hit by a 40-day strike after an earlier offer was rejected, though shipments to world customers continued from stocks.

The company, which would not immediately reveal details of the new contract, said it expected to ship nearly 17m tonnes of iron ore concentrates and 10.5m tonnes of pellets in 1996 because of strong international markets.

Quebec-Labrador is one of the world's leading iron ore sources. Quebec Cartier settled with its unions last month and the third producer, Wabush, is expected to sign a similar agreement to IOC's. Total capacity of the three producers is around 50m tonnes in concentrates form.

Profit-taking hits gold demand

By Kenneth Gooding

Many German and Japanese investors took their profits on gold bought in 1995 and contributed to a 7 per cent drop in gold demand – to 636 tonnes – in the first quarter this year in those markets monitored by the World Gold Council.

The council, a promotional organisation financed by some gold producers, points out that early last year a combination of circumstances in Japan – including the Kobe earthquake, problems in the financial sector and a record low yen price for the metal – drove demand there to unprecedented levels. So the 58 per cent drop in the first quarter of this year in Japanese investment demand to 20 tonnes came as no surprise.

"Given that gold investments made in April 1995 and sold in February 1996 yielded a 31 per cent capital gain [in yen terms], it was surprising that investment offtake amounted to a net 20 tonnes," it adds in the latest demand trends survey.

Similarly, in Germany investors took profits as the price in local currency moved higher. This resulted in a 49 per cent drop in German investment demand to 5.6 tonnes.

Overall, the markets covered by the council, which account for about 80 per cent of world gold demand, saw a 53 per cent drop in investment demand for gold. However, demand in other consumption areas held up well when compared with the record demand seen early in 1995.

Ms Helen Junz, director of the council's Gold Economics Service, said: "After exceptional growth in the first half of 1995, which brought the year's total demand to record levels, an easing of demand in the first quarter was to be expected, especially as there was an upsurge in the gold price this year".

She suggested that for 1996 as a whole, gold demand would "consolidate at high levels, although perhaps not quite equalling the 1995 records".

Preussag plans Albanian chromium revival

By Marianne Sullivan in Tirana

Preussag's US$50m bid has won it the task of revitalising Albania's sagging chromium industry.

The German company will take an 80 per cent share in the eight mines, together with five processing plants, in the country's chromium-rich Bulqize region. It will become the first foreign investor in the sector.

According to officials at Albania's Ministry of Mineral and Energy Resources, Preussag's $50m will be invested over a five-year period for the modernisation of the existing mines and the ferrochrome and chromium concentrate processing plants and production enhancement facilities.

Albania, once the world's third largest chromium exporter, has been trying through a combination of foreign investment and European Union aid to revive its mining industry, which collapsed after the county's transition to democracy in 1991.

Chromium production in 1995 totalled 243,000 tonnes, down from 1.2m tonnes in 1989. Albania's chromium reserves, heavily centred around the Bulqize mining region, about 200km north-east of Tirana, the capital, are estimated at some 37m tonnes.

Preussag's investment was made possible by the passage last year of an Albanian law on mine privatisation, under which foreigners are permitted to own up to 80 per cent of the mines. The other 20 per cent will be owned by Albanian shareholders through the country's voucher privation process.

Final terms of the contract are expected to be signed in the coming weeks. The company is reported to be planning to concentrate on ferrochrome exports and the maintenance of all the mines' workers with increased wages.

Also planned by the German group, with an additional investment, is the rehabilitation of infrastructure in the area, including the telephone system, roads railways and hospitals.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1611-12	1645-46

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	392.8	+0.9	-	-	-	-
Jun	393.5	+0.8	393.9	392.7	27,163	82,377
Jul	395.0	+0.7				

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	125.90	-1.55	125.75	125.00	25	[illegible]
Jul	127.65	-1.70	128.10	127.25	280	1,894
Sep	116.65	-0.10	116.50	116.50	8	384

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1088	-9	-	-	-	159
Jul	1124	-6	1127	1118	[illegible]	22,363
Sep	1142	-6	1146	1136	1,001	45,595

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	60.325	-0.125	60.450	59.450	6,211	27,892
Aug	62.800	-0.250	63.050	62.300	5,665	26,593
Oct	64.700	-0.075	64.775	64.325	2,827	19,635

LONDON TRADED OPTIONS

LONDON SPOT MARKETS

PRECIOUS METALS

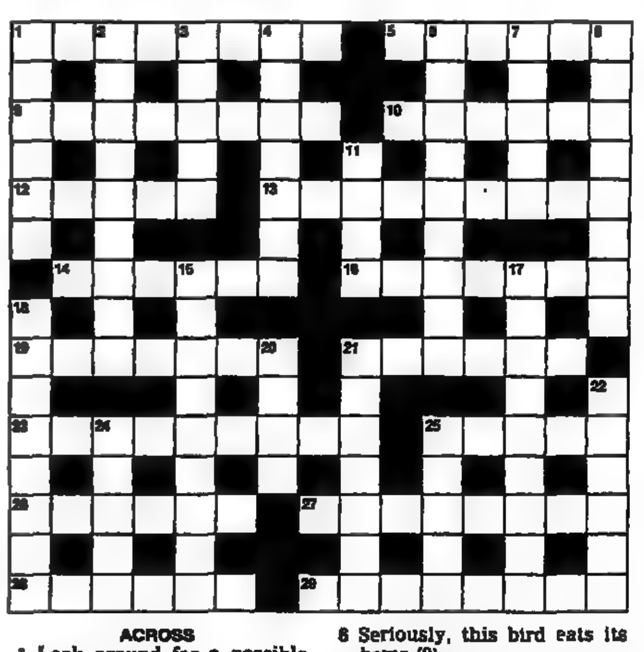
ENERGY

INDICES

JOTTER PAD

CROSSWORD

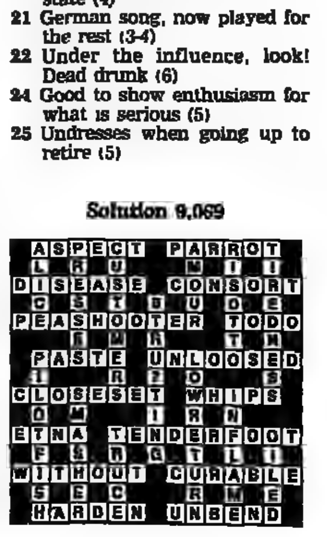
No.9,070 Set by FETTLER



ACROSS
1 Look around for a possible customer (8)
5 Believed taking exercise was of some assistance (6)
9 Louis, fiddling with cuscus, leaving half that's very sweet (8)
10 Revolutionary America lost one battle zone (6)
12 Commonly, it is not a stain or blemish (5)
13 Leisurely walk made Peron mad (9)
14 Conspicuous head on heart of acanthus (6)
16 To characterise thus might nettle one (7)
19 Dancing veleta with energy to raise mind and feelings (7)
21 Pens are sly when wielded wickedly (6)
23 Exchanging note, I get a treat (9)
25 A gelding is an easy paced horse stabled in this way (5)
26 Gave an account of take off over the moon (6)
27 Paragon showed the way to be copied (8)
28 Transposes common food as festive fare (6)
29 Closed up one end wrongly (8)

DOWN
1 When cultivated, it is placed in an area of land (6)
2 Behaving like a mule, so turned into beast (9)
3 The reason why pinto flicked its tail behind its head (5)
4 A cake etc, battered, with beef filling (7)
6 Seriously, this bird eats its home (9)
7 Plain orthodox priest taking mass (5)
8 I bested a nasty disease (8)
11 It's only a fish (4)
15 Measure put before irregular court meant it was an edict (9)
17 Sailor, engaging catch, in waterproof cloth (9)
18 Check underclothing and dress again (8)
20 Gallery reflects the French state (4)
21 German song, now played for the rest (3-4)
22 Under the influence, look! Dead drunk (6)
24 Good to show enthusiasm for what is serious (5)
25 Undresses when going up to retire (5)

Solution 9,069



INTERNATIONAL CAPITAL MARKETS

German bunds and French OATs outperform

By Samer Iskandar in London and Lisa Bransten in New York

European markets traded quietly ahead of today's Ascension Day holiday in several countries. The release of the European Commission's economic forecasts for 1997 came too late to have any significant effect on the markets.

Some traders said the forecasts for France and Germany, which showed both being very close to meeting the Maastricht criteria for European monetary union, appeared somewhat too optimistic. German bunds and French OATs outperformed other European markets.

■ German bunds ended slightly lower, but outperformed gilts and BTPs. Liffe's June bund future closed at 96.62, down 0.17. In the cash market, the 10-year benchmark bund closed at 98.56, down 0.22. The 10-year yield premium of US Treasuries over bunds fell by 6 basis points to 30 points.

Although the European Commission's forecasts showed that Germany's public debt next year was likely to be in excess of the imposed limit of 60 per cent of GDP, economists said this was unlikely to raise doubts over the feasibility of European monetary union.

Some analysts even said the data was bullish for high-yielding European markets. "If the rules are relaxed in order to admit Germany [into the single currency], the chances of less well placed countries [such as Spain and Italy] will be enhanced," said one.

■ French bonds closed lower, in line with bunds. Matif's June notional future settled at 123.20, down 0.22. In the cash market, the 7¼ per cent OAT due 2006 closed at 105.53, down 0.22, its yield spread over the equivalent bund unchanged at 3 basis points.

The French Treasury announced yesterday that Cades, the institution created to manage the accumulated debts of the French social security system, is to launch a global commercial paper programme to raise in the region of FFr35bn by the end of next month, Reuters reports.

GOVERNMENT BONDS

The programme will be arranged by Lehman Brothers and be issued in both the euromarket and the US domestic market. The commercial paper issue, whose size was broadly in line with expectations, is part of a wider programme to raise Fr140bn by June 28.

■ UK gilts continued to trade in a relatively tight range, but closed lower after the release of slightly stronger than expected labour statistics. Liffe's June long gilt future settled at 106 5/32, down 15/32. The 10-year benchmark gilt, the 7½ per cent bond due 2006, closed at 96¾, down ⅞.

Data released yesterday showed that the rate of growth in average earnings had accelerated to 3.75 per cent in March and unit wage costs in manufacturing had risen by 4.1 per cent year-on-year.

Traders are now likely to focus on today's release of retail price data. Economists at Yamaichi International believe that after yesterday's sell-off, the market might be supported by bargain-hunting if the RPI shows moderate growth.

Mr Andrew Roberts, bond analyst at UBS, said index-linked gilts outperformed fixed-income securities, a rare occurrence that he qualified as a "safety-first trade".

■ Italian bonds ended lower, with market participants awaiting the details of an imminent mini-budget. Liffe's June BTP future settled at 114.41, down 0.29, but slid further in after-hours trading to a low of 114.25. In the cash market, the 10-year yield spread over bunds widened by 4 basis points to 337 points.

Analysts were divided over the likelihood of this spread tightening further. Mr Kirit Shah at Sanwa International believes the rally "will soon run out of steam".

However Ms Marie Owens-Thomsen, chief economist at BIP/Dresdner Bank in Paris, expects Italian bond yields to narrow to around 300 basis points over 10-year bunds. She recently forecast that the dollar will rise to around DM1.55 and expects this to provide support to both the Italian currency and the BTP market.

■ US Treasury prices hung on to the gains of the previous two sessions in early trading, despite relatively strong figures on industrial production and capacity utilisation.

Near midday, the long bond was 1/32 lower at 89⅝ to yield 6.837 per cent while the two-year note was unchanged at 99 11/32, yielding 5.959 per cent. The 30-year June bond future was 1/32 higher at 109¾.

Industrial production advanced by 0.9 per cent last month and capacity utilisation was 83 per cent, according to the Federal Reserve. Both figures were higher than consensus forecasts of a 0.5 per cent rise in production and capacity utilisation of 82.7 per cent.

Mr Kevin Sluder, a senior fixed-income trader at First Chicago Securities, said investors seemed to be focusing on the relative weakness in some components of the reports.

For example, excluding the motor vehicle sector, production was nearly flat, and much of the rise in car manufacturing was attributed to the end of the General Motors strike.

JP Morgan, Reuter in RiskMetrics link

By Richard Lapper

J.P. Morgan, the US bank, and Reuters, the international news and financial information organisation, have agreed in principle to collaborate in the development of Morgan's RiskMetrics risk management database and methodology.

RiskMetrics, which was launched by Morgan in October 1994, can be integrated into the value-at-risk (VaR) computer models used to measure the market risk of trading and investment portfolios.

RiskMetrics data-sets – which provide current and historical price information for the world's biggest stock, bond and currency markets, and ways to measure their volatility and correlation – are published on the Internet and in other information services.

Under the agreement, Reuters will take over responsibility for the daily production of RiskMetrics data. In addition, it will work with Morgan to develop ways for users to select data on the basis of their own particular requirements.

The proposed collaboration is non-exclusive and will allow other information services to continue using RiskMetrics in their own products.

The partners will develop customised risk management systems, building on the basis of the RiskMetrics methodology, to incorporate more specific kinds of data – such as price details on less widely traded emerging markets, or particular extensive historic runs of data, for example.

Products could also be developed to allow users to track the value of more complex financial instruments, such as derivatives including embedded options.

Users will be able to access the new extended RiskMetrics data-set through new database search facilities being built by Reuters for all the data that it provides.

By working with Reuters, Morgan said that it would further enhance its risk management product capabilities, including its so-called "Four-Fifteen" VaR reporting software. FourFifteen, named after Morgan's market risk report produced at 4.15pm each day, is an off-the-shelf software system which allows users to apply RiskMetrics directly.

Mr Jacques Longerstaey, of Morgan's risk management services group, said there was growing demand for data from other markets and more flexibility in the way data is handled.

Reuters already markets a range of risk management products, including Dealmanager and Kondor Plus.

Toyota sees strong demand for $750m 'euro-Asian' issue

By Conner Middelmann

Ahead of national holidays in most of Europe today, the eurobond market saw substantial volumes of new paper yesterday, featuring several large deals in US dollars and D-Marks.

Toyota Motor Credit Corp's $750m issue of five-year bonds saw strong demand and was sold out shortly after launch, lead managers CS First Boston and Merrill Lynch said.

In keeping with TMCC's efforts to increase its Asian investor base, the issue was targeted heavily to that region. Indeed, the bonds, dubbed "euro-Asian", will be listed in Hong Kong and Singapore as well as London. Yielding 15 basis points over US Treasuries at the re-offer price, the terms were said to be spot-on, and the spread remained steady throughout the day.

Ford Motor Credit is currently holding roadshows for a similar euro-Asian issue, seen as totalling at least $750m, via Lehman Brothers and Goldman Sachs.

In the D-Mark sector, the European Investment Bank surprised dealers with a DM750m issue of bonds due October 2003.

INTERNATIONAL BONDS

"There had been a lot of talk that they were planning a D-Mark issue, but the arbitrage was so bad we thought they'd abandoned the project," said a Frankfurt syndicate official.

One dealer pointed out that the bonds' 7 basis point spread compares favourably with the World Bank's bonds due 2003, which yield around 5 basis points below bunds.

According to Lehman Brothers, joint lead manager with Morgan Stanley, the bonds met a good response, largely from European institutions.

In the floating-rate market, Italy's Banca di Roma issued $500m of seven-year notes yielding 13.5 basis points over Libor at the re-offer price.

"This is a rare borrower in the eurobond market, so a lot of institutional clients have room for the name," said an official at arranger SBC Warburg.

Elsewhere, Israel has appointed Merrill Lynch to manage its debut eurobond issue, which is likely to total $200m and is set to be launched in late 1996.

"It will be a relatively small amount – we don't really need the money, but we want to set a benchmark for future issuance," Mr David Brodet, director general at Israel's Finance Ministry, said in London yesterday. The bonds are expected to have a maturity of five to seven years.

Israel also plans to tap Japan's domestic bond market with a samurai issue in 1997, he said.

"First we want to set benchmarks in all the main markets, and eventually we will do global offerings," Mr Brodet said.

Israel's $250m yankee bond, which was issued in December last year, was the country's first foray into the international capital markets without the backing of US loan guarantees.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Toyota Motor Credit Corp	750	6.50	99.562R	May 2001	0.25R	+15(6¼%-01)	CSFB/Merrill Lynch
Banca di Roma‡(a)	500	(a1)	99.682R	Jun 2003	0.20R	-	HSBC Markets/SBC Warburg
Rabobank Nederland(a)	200	6.25	99.90R	Dec 1999	0.1875R	+3(6⅝%-99)	Daiwa Europe
Lojas Americanas(b)	150	11.00#	98.515R	Jun 2004	0.875R	+450(6⅝%-99)	JP Morgan Securities
D-MARKS							
European Investment Bank(a)	750	6.00	99.58R	Oct 2003	0.30R	+7(6%-03)	Lehman/Morgan Stanley
STERLING							
LB Rheinland-Pfalz(a)	100	7.75	99.75R	Dec 2001	0.25R	+10(7%-01)	HSBC Markets
GUILDERS							
Dresdner Bank(c)	100	5.25	99.26R	Sep 2001	0.25R	+5(6¾%-01)	ING Barings
ITALIAN LIRE							
Walt Disney Company	300bn	8.625	101.302	Jun 2000	1.625	-	Deutsche MG/JP Morgan
Crédit Local de France(d)	200bn	9.00	101.905	Jun 2001	1.875	-	Credito Italiano

Final terms, non-callable unless stated. Yield spread (over relevant govt bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from June 98 at par. Puttable in June 01 at par. a1) 3-mth Libor +6¾bp. b) Puttable on 4/6/99 at 96.84% and on 4/6/01 at 97.71%. c) Fl 300m launched 11/4/96 was increased to Fl 400m. d) L200bn launched 7/5/96 was increased by L100bn at 101.905% and L100bn at 101¾% to L400bn. e) Short 1st coupon.

Telefónica del Peru ADSs

By Richard Lapper

Telefónica del Peru, has filed with the US Securities and Exchange Commission to sell some $100m in American depositary shares, representing some 50m class B shares.

The issue is part of a broader equity offering in which the government is selling its remaining 29.5 per cent stake – some 669.9m class B shares – in the company to international and domestic investors.

An amendment to the SEC registration statement detailing the final size of the issue will be filed next month after pre-marketing is completed. The issue, likely to be one of the biggest this year by any Latin American company, is expected to raise up to $1.35bn.

J.P. Morgan and Merrill Lynch are global co-ordinators, while Banco de Crédito will handle the domestic issue.

Each of the ADSs will represent 10 class B shares.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	109.0920	–	8.77	9.03	8.80
Austria		6.125	02/06	97.8500	+0.050	6.42	6.49	6.43
Belgium		7.000	05/06	102.2100	–0.090	6.69	6.74	6.66
Canada *		8.750	12/05	108.9300	+0.300	7.71	7.97	7.58
Denmark		8.000	03/06	104.1400	+0.020	7.39	7.48	7.44
France	BTAN	5.750	03/01	100.6250	–0.130	5.58	5.60	5.71
	OAT	7.250	04/06	105.5300	–0.220	6.48	6.61	6.55
Germany Bund		6.250	04/06	98.5600	–0.220	6.45	6.61	6.37
Ireland		8.000	08/06	102.4900	–0.150	7.63	7.71	7.98
Italy		9.500	02/06	99.7100	–0.060	9.54†	9.64	10.45
Japan	No 140	6.600	06/01	118.4269	–0.280	2.51	2.51	1.53
	No 182	3.000	09/05	97.6159	+0.550	3.34	3.41	3.14
Netherlands		6.000	01/06	97.5100	–0.150	6.35	6.42	6.35
Portugal		11.875	02/05	116.4600	–0.140	9.05	9.12	9.31
Spain		8.800	04/06	0.0000	–	0.00	9.26	9.47
Sweden		6.000	02/05	85.4730	+0.170	8.41	8.64	8.60
UK Gilts		8.000	12/00	102-13	–	7.35	7.51	7.42
		7.500	12/06	96-04	–14/32	8.05	8.17	8.07
		9.000	10/08	108-18	–15/32	8.15	8.27	8.17
US Treasury *		6.875	05/06	101-23	+8/32	6.38	6.87	6.29
		6.000	02/26	89-10	+5/32	6.84	7.08	6.65
ECU (French Govt)		7.500	04/05	103.3800	–0.190	6.90	6.99	6.99

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.02	Two year	5.96
Prime rate	8¼	Two month	5.07	Three year	6.17
Broker loan rate	7	Three month	5.13	Five year	6.37
Fed.funds	5¼	Six month	5.30	10-year	6.64
Fed.funds at intervention	-	One year	5.56	30-year	6.84

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	123.30	123.20	–0.22	123.38	123.16	90,083	161,117
Sep	121.84	121.74	–0.22	121.86	121.74	4,072	12,481
Dec	120.58	120.48	–0.22	120.60	120.48	2,869	6,294

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jun	Calls Jul	Calls Sep	Puts Jun	Puts Jul	Puts Sep
120	-	-	-	0.02	-	0.03
121	-	1.26	-	0.04	0.48	-
122	1.33	0.66	1.16	0.10	0.88	1.37
123	0.62	0.27	-	0.31	-	1.92
124	0.12	0.10	0.42	-	-	-

Est. vol. total, Calls 6,376 Puts 8,700. Previous day's open int., Calls 147,086 Puts 168,661.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.79	96.62	-0.17	96.91	96.56	133527	173799
Sep	95.84	95.70	-0.17	95.98	95.73	4585	23717

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
9650	0.35	0.29	0.51	0.66	0.23	1.08	1.31	1.46
9700	0.12	0.15	0.34	0.48	0.50	1.45	1.64	1.76
9750	0.03	0.07	0.22	0.34	0.91	1.87	2.02	2.14

Est. vol. total, Calls 17362 Puts 14167. Previous day's open int., Calls 253822 Puts 193636

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114.50	114.41	-0.29	114.64	114.25	36998	64551
Sep	114.10	113.77	-0.29	114.10	113.95	775	2561

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11400	0.76	1.82	0.35	2.05
11450	0.47	1.57	0.56	2.30
11500	0.26	1.33	0.87	2.56

Est. vol. total, Calls 2663 Puts 4707. Previous day's open int., Calls 80133 Puts 104609

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	98.47	98.57	+0.12	98.76	98.26	63,531	58,331
Sep	98.02	98.03	+0.06	98.03	97.94	27	164

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106-20	106-05	-0-15	106-26	106-03	58947	120416
Sep	105-25	105-05	-0-15	105-25	105-05	2114	1642

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
106	0-34	0-39	0-63	1-14	0-34	1-08	1-53	2-04
107	0-08	0-19	0-41	0-54	0-62	2-09	2-31	2-44
108	0-02	0-06	0-25	0-38	1-56	2-62	3-15	3-26

Est. vol. total, Calls 4689 Puts 3953. Previous day's open int., Calls 46920 Puts 48085

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	81.28	81.16	-0.10	81.28	81.16	919	6,645

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109-16	109-27	+0-22	109-27	109-14	331,887	358,904
Sep	108-29	109-09	+0-11	109-10	108-25	6,905	46,140
Dec	108-18	108-24	+0-11	109-10	108-12	309	7,503

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	118.50	-	-	118.62	118.37	6361	0
Sep	117.34	-	-	117.67	117.24	2038	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed May 15	Day's change %	Tue May 14	Accrued interest	xd adj. ytd		Low coupon yield May 15	May 14	Yr. ago	Medium coupon yield May 15	May 14	Yr. ago	High coupon yield May 15	May 14	Yr. ago
1 Up to 5 years (23)	121.19	–0.11	121.33	2.06	3.78	5 yrs	7.52	7.47	7.99	7.56	7.51	8.05	7.65	7.61	8.17
2 5-15 years (19)	145.81	–0.27	146.22	3.01	3.56	15 yrs	8.23	8.17	8.12	8.24	8.19	8.15	8.34	8.28	8.42
3 Over 15 years (9)	160.52	–0.43	161.21	3.81	3.48	20 yrs	8.31	8.24	8.13	8.31	8.26	8.16	8.36	8.32	8.35
4 Irredeemables (6)	184.10	–0.68	185.36	5.24	1.47	Irred.†	8.37	8.30	8.19						
5 All stocks (57)	141.15	–0.25	141.50	2.62	3.67										

Index-linked							Inflation 5% May 15	May 14	Yr. ago	Inflation 10% May 15	May 14	Yr. ago
6 Up to 5 years (1)	195.92	–0.03	195.97	0.46	4.43	Up to 5 yrs	2.66	2.65	3.41	1.36	1.33	1.78
7 Over 5 years (11)	185.43	0.07	185.30	1.06	1.81	Over 5 yrs	3.79	3.80	3.82	3.60	3.69	3.41
8 All stocks (12)	185.54	0.07	185.41	1.04	1.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	May 15	May 14	May 13	May 10	May 9	Yr ago	High*	Low*
Govt. Secs. (UK)	92.27	92.48	92.19	92.40	92.04	93.16	96.34	91.59
Fixed Interest	111.85	111.92	111.46	111.82	112.13	112.38	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	May 14	May 13	May 10	May 9	May 8
Gilt Edged bargains	71.7	78.9	102.1	112.4	102.9
5-day average	93.8	98.1	102.4	100.9	95.9

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on May 15

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	97⅛	97⅜	+⅛	6.99
ABN Amro Bank 7¼ 05	1000	100⅜	100¾	+⅛	7.32
African Dev Bk 7⅜ 23	500	98⅛	98⅞	+⅛	7.70
Alberta Province 7⅝ 98	1000	102¾	103		6.36
Asian Dev Bank 6¼ 05	750	95½	95⅞	+⅛	7.04
Austria 8½ 00	400	108¼	108½	+⅛	6.62
[illegible]					
Sweden 8 97	2500	103⅞	103⅛		3.80
United Kingdom 7¼ 97	5500	104⅛	104⅞	-⅛	3.68
Volkswagen Intl Fin 7 03	1000	102⅞	103⅛		6.48
World Bank 0 15	2000	30¼	30⅝		6.29
World Bank 5⅞ 03	3000	99¼	99⅛		6.00
SWISS FRANC STRAIGHTS					
[illegible]					
Abbey Natl Treasury 8 03 £	1000	99	99¼		8.19
British Land 8⅞ 23 £	150	89¼	89¾	-⅛	10.28
Denmark 6¾ 98 £	800	99½	99⅝		6.97
Depfa Finance 7¼ 03 £	500	93¾	93⅞		8.28
EIB 8 03 £	1000	100	100¼	-⅛	8.00
Glaxo Wellcome 8¾ 05 £	500	100½	100⅞	-⅛	8.62
Hanson 10⅜ 97 £	500	104¼	104½	-⅛	7.05
[illegible]					

FLOATING RATE NOTES [illegible]

CONVERTIBLE BONDS [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

[illegible]

Other Fixed Interest [illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

MARKETS REPORT

Dollar firmer as market revises Japan outlook

By Philip Gawith

The dollar yesterday finished firmer against the yen as the market revised its expectations for Japanese monetary policy, helped by comments from senior officials.

Analysts said there was evidence of a retreat from the near certain view that Japanese short-term interest rates would rise in June. This was assisted by comments from Mr Eisuke Sakakibara, the influential finance ministry official, that Japan shared the US's interest in a stronger dollar.

The dollar also received some verbal support from Mr Jean Boissonnat, a member of the Bank of France monetary council, who followed the recent Bundesbank line of affirming the desirability of a firmer dollar.

The dollar finished in London at DM1.5341, from DM1.5368. Against the yen it closed at Y106.855, from Y105.950.

The yen was also considerably weaker against the D-Mark, finishing at Y69.45, from Y68.91.

The D-Mark was helped by the Bundesbank's decision to keep the repo rate fixed at 3.3 per cent for a further two weeks. It closed little changed against the French franc at FFr3.386, from FFr3.383.

Sterling had an uneventful day, closing at DM2.3212, from DM2.3287. Against the dollar it finished at $1.5131, from $1.5153.

■ The initial shape of European trading was shaped by overnight developments in Tokyo. Mr Mike Gallagher, analyst at IDEA in London, said he believed that sentiment was already shifting ahead of the comments from Mr Sakakibara and Mr Yasuo Matsushita.

"There was increasing realisation that we had reached the point of looking at a tightening in June as a virtual certainty, but this was not validated by the Ministry of Finance. The market is coming back to a more realistic expectation."

The official comments could only have lent further momentum to this shift. Mr Matsushita said the economy still needed "sufficient monetary support", while Mr Sakakibara said the market might be misreading the situation if it thought Japanese rates would rise.

Mr Gallagher said the reassessment of the yen appeared to be being led by US hedge funds. He forecast that the current move could extend as far as Y108, but said the rally was vulnerable to renewed signs of strength in the Japanese economy.

■ The long awaited European Commission figures on growth, including deficit projections for 1997, critical to whether EU countries will meet the Maastricht convergence criteria, had little market impact. Ms Alison Cottrell, analyst at Paine Webber in London, said this illustrated the extent to which the market now believed the whole Maastricht process to be a political one. As a result, the commission figures had simply taken on the status of another forecast.

She said some of the assumptions made by the Commission also raised credibility problems. In the case of Germany, for example, the 2.9 per cent budget deficit forecast in 1999 takes as given that the government's ambitious fiscal consolidation package will succeed.

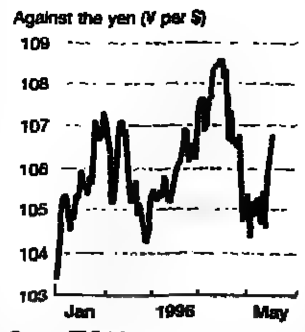
Figures showing that the German government would undershoot earlier revenue forecasts for 1996 and 1997 also had limited impact because they had been widely leaked. Ironically, said Ms Cottrell, although they are "bad" news from one perspective, these figures do strengthen Chancellor Kohl's bargaining position with spending ministries and public sector unions.

Mr Gallagher said markets remained split over whether the Bundesbank was now seeking D-Mark consolidation, or whether the D-Mark bear story remained intact. Figures from 4CAST, the financial analysis group, show that since the turn of the year, the D-Mark has lost more than 10 per cent against the Australian dollar, about eight per cent against the Italian lira, more than six per cent against the Canadian and US dollars, and over four per cent against the pound, Irish punt and Swedish krona.

Mr Tony Norfield, UK treasury economist at ABN-AMRO in London, reckons that the dollar is unlikely to move above DM1.55-56 in the next few weeks. Looking at the relationship between the $/D-Mark rate, and the D-Mark/yen rate, he concludes that this could only happen in the unlikely event of the D-Mark falling to around Y66.

Dollar

Against the yen (Y per $)



Source: FT Extel

■ Pound in New York

May 15	Latest	Prev. close
£ spot	1.5135	1.5145
1 mth	1.5127	1.5136
3 mth	1.5112	1.5121
1 yr	1.5060	1.5073

■ OTHER CURRENCIES

May 15	£	$
Czech Kr	41.6026 - 41.6452	27.5040 - 27.5140
Hungary	225.045 - 225.259	148.780 - 148.830
Iran	4540.80 - 4537.80	3000.00 - 3000.00
Kuwait	0.4536 - 0.4544	0.2999 - 0.3002
Poland	4.0271 - 4.0355	2.6624 - 2.6664
Russia	7525.19 - 7534.70	4975.00 - 4978.00
UAE	5.5560 - 5.5592	3.6725 - 3.6728

POUND SPOT FORWARD AGAINST THE POUND

May 15		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.3340	-0.0538	232 - 448	16.3711	16.3134	16.3027	2.3	16.2278	2.6	-	-	104.8
Belgium	(BFr)	47.7081	-0.1754	847 - 314	47.8950	47.6620	47.6031	2.6	47.3931	2.6	46.3731	2.8	106.6
Denmark	(DKr)	8.9589	-0.0266	546 - 651	8.9812	8.9497	8.9445	2.1	8.9116	2.2	8.7684	2.1	107.3
Finland	(FM)	7.1450	-0.0728	369 - 530	7.1990	7.1340	7.1406	0.7	7.1325	0.7	-	-	83.2
France	(FFr)	7.8594	-0.0198	564 - 624	7.8764	7.8467	7.8453	2.2	7.8174	2.1	7.6845	2.2	109.0
Germany	(DM)	2.3212	-0.0075	197 - 226	2.3274	2.3177	2.3163	2.6	2.3058	2.7	2.2655	2.8	109.1
Greece	(Dr)	368.304	-0.46	091 - 516	369.044	366.266	-	-	-	-	-	-	67.2
Ireland	(I£)	0.9695	-0.0018	686 - 704	0.9710	0.9685	0.9687	1.0	0.9674	0.9	0.9607	0.9	96.6
Italy	(L)	2352.11	-5.72	058 - 365	2359.04	2348.39	2360.36	-4.2	2375.46	-4.0	2428.16	-3.2	75.3
Luxembourg	(LFr)	47.7081	-0.1754	847 - 314	47.8950	47.6620	47.6031	2.6	47.3931	2.6	46.4731	2.6	106.6
Netherlands	(Fl)	2.5990	-0.0082	977 - 003	2.6075	2.5923	2.5947	2.0	2.5878	2.9	2.5166	3.0	106.9
Norway	(NKr)	9.9593	-0.0281	503 - 683	9.9864	9.9501	9.9503	1.1	9.9312	1.1	9.8335	1.2	94.2
Portugal	(Es)	238.502	-0.628	356 - 648	239.121	238.190	238.927	-2.1	239.832	-2.2	-	-	94.7
Spain	(Pta)	193.669	-0.538	567 - 771	194.471	193.550	193.879	-1.9	194.474	-1.7	196.129	-1.3	81.2
Sweden	(SKr)	10.2273	-0.0272	179 - 366	10.2564	10.1966	10.2265	-0.1	10.2302	-0.1	10.2324	0.0	89.4
Switzerland	(SFr)	1.8997	-0.0019	953 - 981	1.9098	1.8904	1.8905	3.9	1.8777	4.0	1.82	4.0	111.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.5
Ecu	-	1.2350	-0.0028	341 - 359	1.2385	1.2339	1.2337	1.3	1.2308	1.4	1.2174	1.4	-
SDR†	-	1.048600	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5120	-0.0022	106 - 134	1.5179	1.5105	-	-	-	-	-	-	-
Brazil	(R$)	1.5054	-0.0048	047 - 060	1.5138	1.5045	-	-	-	-	-	-	-
Canada	(C$)	2.0703	-0.0018	692 - 714	2.0768	2.0690	2.0698	0.4	2.0659	0.6	2.0578	0.6	84.2
Mexico	(New Peso)	11.2545	+0.0344	358 - 733	11.2829	11.2350	-	-	-	-	-	-	-
USA	($)	1.5131	-0.0022	126 - 136	1.5184	1.5125	1.5123	0.6	1.5107	0.6	1.5063	0.5	96.9
Pacific/Middle East/Africa													
Australia	(A$)	1.8902	+0.0016	884 - 920	1.8965	1.8872	1.8926	-1.6	1.8978	-1.6	1.9231	-1.7	94.5
Hong Kong	(HK$)	11.7054	-0.0171	018 - 110	11.7465	11.7015	11.6983	0.8	11.6867	0.7	11.6869	0.3	-
India	(Rs)	52.4260	-0.3793	334 - 246	53.5430	52.2320	-	-	-	-	-	-	-
Israel	(Shk)	4.9042	+0.0202	001 - 083	4.9395	4.8606	-	-	-	-	-	-	-
Japan	(Y)	161.682	+1.136	681 - 774	161.910	160.380	160.957	5.4	159.467	5.5	153.052	5.3	137.4
Malaysia	(M$)	3.7708	-0.0109	688 - 728	3.7846	3.7680	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.1999	-0.0002	982 - 016	2.2067	2.1980	2.2049	-2.7	2.2144	-2.6	2.2482	-2.2	107.7
Philippines	(Peso)	39.6826	-0.0423	940 - 715	39.8720	39.4930	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6746	-0.0085	724 - 768	5.6940	5.6720	-	-	-	-	-	-	-
Singapore	(S$)	2.1305	-0.0023	290 - 319	2.1371	2.1295	-	-	-	-	-	-	-
South Africa	(R)	6.5366	-0.0133	[illegible] - 465	6.5580	6.4773	-	-	-	-	-	-	-
South Korea	(Won)	1177.72	-1.41	726 - 819	1181.77	1177.20	-	-	-	-	-	-	-
Taiwan	(T$)	41.1669	-0.0387	467 - 861	41.3055	41.1450	-	-	-	-	-	-	-
Thailand	(Bt)	38.2512	-0.0405	310 - 714	38.3710	38.2280	-	-	-	-	-	-	-

† Rates for May 14. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.7951	-0.0198	915 - 986	10.8050	10.7640	10.7756	2.2	10.7356	2.3	10.5501	2.3	104.6
Belgium	(BFr)	31.5300	-0.07	250 - 350	31.5850	31.4520	31.475	2.1	31.36	2.2	30.82	2.3	105.2
Denmark	(DKr)	5.9215	-0.008	200 - 230	5.9260	5.9064	5.914	1.5	5.897	1.7	5.825	1.6	106.5
Finland	(FM)	4.7221	-0.0412	183 - 258	4.7490	4.7133	4.7156	1.7	4.7036	1.6	4.6581	1.4	81.7
France	(FFr)	5.1943	-0.0065	940 - 945	5.1985	5.1800	5.1874	1.6	5.1731	1.6	5.1053	1.7	108.3
Germany	(DM)	1.5341	-0.0027	336 - 345	1.5360	1.5300	1.5316	2.0	1.5266	2.2	1.4978	2.4	107.3
Greece	(Dr)	243.410	+0.05	350 - 470	243.690	241.530	245.085	-8.3	248.435	-8.3	262.41	-7.8	68.7
Ireland	(I£)	1.5607	+0.0002	597 - 617	1.5645	1.5583	1.5613	-0.4	1.5621	-0.4	1.5536	0.5	-
Italy	(L)	1554.50	-2.18	400 - 500	1557.31	1551.25	1560.55	-4.7	1572.1	-4.5	1613	-3.8	75.8
Luxembourg	(LFr)	31.5300	-0.07	250 - 350	31.5850	31.4520	31.477	2.0	31.3705	2.0	30.89	2.0	106.2
Netherlands	(Fl)	1.7180	-0.0029	147 - 153	1.7187	1.7108	1.7157	2.1	1.7117	2.1	[illegible]	[illegible]	106.3
Norway	(NKr)	6.5821	-0.0009	793 - 858	6.5900	6.5670	6.5791	0.5	6.5736	0.5	6.5371	0.7	97.4
Portugal	(Es)	157.625	-0.165	580 - 670	157.750	157.180	157.94	-2.4	158.53	-2.3	160.875	-1.9	94.7
Spain	(Pta)	127.995	-0.17	970 - 020	128.240	127.740	128.245	-2.5	128.675	-2.1	130.215	-1.7	80.8
Sweden	(SKr)	6.7562	-0.0091	552 - 631	6.7843	6.7260	6.7702	-2.0	6.7577	-1.7	6.8297	-1.0	88.6
Switzerland	(SFr)	1.2535	+0.0006	530 - 540	1.2551	1.2464	1.25	3.4	1.2425	3.5	1.209	3.6	111.0
UK	(£)	1.5131	-0.0022	126 - 136	1.5184	1.5125	1.5123	0.6	1.5107	0.6	1.5063	0.5	84.5
Ecu	-	1.2262	+0.0008	247 - 267	1.2294	1.2244	1.226	-0.7	1.2276	-0.8	1.2365	-0.9	-
SDR†	-	0.69130	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9993	-	987 - 999	1.0001	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	0.9949	-0.0018	948 - 950	0.9960	0.9945	-	-	-	-	-	-	-
Canada	(C$)	1.3683	+0.0001	680 - 685	1.3688	1.3670	1.3681	0.1	1.3684	0.0	1.3712	-0.2	83.5
Mexico	(New Peso)	7.4380	+0.0338	260 - 480	7.4485	7.4260	7.5995	-26.1	7.7845	-18.8	9.548	-28.4	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.5
Pacific/Middle East/Africa													
Australia	(A$)	1.2492	+0.0029	484 - 500	1.2510	1.2477	1.2512	-1.8	1.2547	-1.8	1.2734	-1.9	95.8
Hong Kong	(HK$)	7.7367	-	362 - 372	7.7375	7.7360	7.7374	-0.1	7.7392	-0.1	7.7682	-0.4	-
India	(Rs)	34.6500	-0.2	000 - 000	35.3000	34.5000	34.8	-5.2	35.109	-5.3	36.578	-5.6	-
Israel	(Shk)	3.2412	+0.0161	395 - 428	3.2500	3.2209	-	-	-	-	-	-	-
Japan	(Y)	106.855	+0.905	800 - 910	106.890	105.800	106.41	5.0	105.51	5.0	101.77	4.8	139.3
Malaysia	(M$)	2.4920	-0.0033	915 - 925	2.4965	2.4913	2.4928	-0.4	2.499	-1.1	2.5226	-1.2	-
New Zealand	(NZ$)	1.4530	+0.0021	533 - 545	1.4546	1.4533	1.457	-2.8	1.4636	-2.4	1.4874	-2.3	-
Philippines	(Peso)	26.1600	+0.01	100 - 200	26.2100	26.1100	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7503	-0.0002	501 - 505	3.7505	3.7500	3.7508	-0.1	3.7515	-0.1	3.7548	-0.1	-
Singapore	(S$)	1.4080	+0.0005	075 - 085	1.4085	1.4070	1.4044	3.0	1.3984	2.7	1.373	2.5	-
South Africa	(R)	4.3200	-0.0025	150 - 250	4.3290	4.3200	4.3457	-8.0	4.4003	-7.4	4.6258	-7.0	-
South Korea	(Won)	778.350	+0.2	300 - 400	778.400	778.300	-	-	-	-	-	-	-
Taiwan	(T$)	27.2070	+0.014	020 - 120	27.2130	27.1990	27.227	-0.9	27.257	-0.8	-	-	-
Thailand	(Bt)	25.2800	+0.01	750 - 850	25.3210	25.2490	25.3765	-4.7	25.5625	-4.8	26.465	-4.7	-

† SDR rate per $ for May 14. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 14: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

May 15	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.70	-	5.60
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.70	-	5.60
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.32
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-

■ $ LIBOR FT London

	Over night	One month	Three mths	Six mths	One year
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar CDs	-	5.10	5.11	5.24	5.56
week ago	-	5.10	5.12	5.30	5.69
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.

Mid rates are shown for the domestic Money Rates, US $ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 15	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.02	95.99	-0.05	96.02	95.97	24,731	52,237
Sep	96.04	96.02	-0.06	96.05	96.01	14,585	53,782
Dec	95.92	95.90	-0.03	95.92	95.88	4,767	31,630

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.79	96.75	-0.04	96.79	96.74	39680	184660
Sep	96.83	96.77	-0.06	96.84	96.75	55656	240628
Dec	96.64	96.57	-0.07	96.66	96.57	45714	203397
Mar	96.32	96.27	-0.06	96.36	96.26	26924	180407

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.35	91.37	-0.02	91.38	91.33	4971	52746
Sep	91.80	91.83	-0.04	91.90	91.80	5312	36192
Dec	92.13	92.09	-0.04	92.14	92.06	2251	26073
Mar	92.06	92.06	-0.03	92.11	92.06	39	9622

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.02	97.92	-0.11	98.02	97.87	9165	23198
Sep	97.93	97.79	-0.15	97.94	97.78	13905	21714
Dec	97.72	97.62	-0.11	97.77	97.60	3441	11085
Mar	97.46	97.36	-0.09	97.46	97.32	1227	5240

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.29	99.29	+0.12	99.31	99.29	150	na
Sep	99.03	99.04	+0.16	99.04	99.03	540	na
Dec	98.74	98.74	+0.18	98.75	98.74	670	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.69	95.66	-0.06	95.70	95.66	1166	10349
Sep	95.73	95.74	-0.04	95.78	95.74	899	4704
Dec	95.61	95.58	-0.06	95.63	95.58	262	3638
Mar	95.42	95.37	-0.05	95.42	95.39	100	2223

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 15		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.78	16.47	4.865	2.031	4930	5.459	20.87	499.9	406.0	21.44	3.976	2.096	4.339	3.171	337.9	2.589
Denmark	(DKr)	53.25	10	8.771	2.590	1.081	2625	2.896	11.11	266.2	218.2	11.42	2.117	1.116	2.310	1.689	179.9	1.378
France	(FFr)	60.71	11.40	10	2.953	1.233	2993	3.302	12.67	303.5	246.5	13.02	2.414	1.272	2.634	1.925	205.1	1.571
Germany	(DM)	20.56	3.860	3.386	1	0.417	1013	1.118	4.291	102.8	83.46	4.406	0.817	0.431	0.892	0.652	69.45	0.532
Ireland	(I£)	49.24	9.247	8.110	2.395	1	2427	2.678	10.28	246.1	199.9	10.56	1.958	1.032	2.136	1.561	166.4	1.275
Italy	(L)	2.028	0.381	0.334	0.099	0.041	100	0.110	0.423	10.14	8.236	0.435	0.081	0.043	0.088	0.064	6.854	0.053
Netherlands	(Fl)	18.39	3.453	3.029	0.894	0.373	906.4	1	3.836	91.91	74.64	3.942	0.731	0.385	0.798	0.583	62.12	0.476
Norway	(NKr)	47.91	8.997	7.891	2.331	0.973	2362	2.606	10	239.5	194.5	10.27	1.905	1.004	2.079	1.519	161.9	1.240
Portugal	(Es)	20.00	3.757	3.295	0.973	0.406	986.2	1.088	4.176	100.	81.22	4.289	0.795	0.419	0.868	0.634	67.59	0.518
Spain	(Pta)	24.63	4.626	4.057	1.198	0.500	1214	1.340	5.141	123.1	100.	5.281	0.979	0.516	1.069	0.781	83.22	0.638
Sweden	(SKr)	46.64	8.759	7.682	2.269	0.947	2299	2.537	9.735	233.1	189.3	10	1.854	0.976	2.023	1.479	157.6	1.207
Switzerland	(SFr)	25.15	4.723	4.143	1.224	0.511	1240	1.368	5.250	125.7	102.1	5.393	1	0.527	1.091	0.798	84.98	0.651
UK	(£)	47.71	8.960	7.859	2.321	0.969	2352	2.595	9.959	238.5	193.7	10.23	1.897	1	2.070	1.513	161.2	1.235
Canada	(C$)	23.05	4.329	3.797	1.121	0.468	1136	1.254	4.811	115.2	93.57	4.942	0.916	0.483	1	0.731	77.87	0.597
US	($)	31.53	5.922	5.194	1.534	0.640	1555	1.715	6.582	157.6	128.0	6.761	1.254	0.661	1.368	1	106.5	0.816
Japan	(Y)	29.60	5.558	4.875	1.440	0.601	1459	1.610	6.178	148.0	120.2	6.346	1.177	0.620	1.284	0.939	100.	0.766
Ecu		38.63	7.255	6.364	1.879	0.785	1904	2.101	8.064	193.1	156.8	8.283	1.536	0.810	1.676	1.225	130.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6529	0.6531	+0.0001	0.6547	0.6523	19,236	81,070
Sep	0.6563	0.6564	-0.0003	0.6585	0.6551	343	4,371
Dec	-	0.6604	-0.0004	-	0.6604	3	1,105

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8018	0.7999	-0.0015	0.8048	0.7988	11,932	43,718
Sep	0.8100	0.8066	-0.0017	0.8100	0.8055	134	2,227
Dec	0.8130	0.8135	-0.0021	0.8135	0.8130	25	741

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9484	0.9419	-0.0062	0.9495	0.9400	23,982	63,826
Sep	0.9600	0.9536	-0.0057	0.9600	0.9520	340	3,023
Dec	-	0.9705	-	-	-	3	2,060

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5136	1.5142	+0.0012	1.5178	1.5122	9,391	45,225
Sep	1.5116	1.5130	+0.0018	1.5130	1.5110	89	429
Dec	-	1.5100	+0.0002	1.5112	-	1	36

UK INTEREST RATES

LONDON MONEY RATES

May 15	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 5¼	6 - 5 13/16	6 1/16 - 5 7/8	6⅛ - 6	6 3/16 - 6 1/16	6 5/16 - 6 3/16
Sterling CDs	-	-	6 - 5 15/16	6 - 5 15/16	6 1/32 - 5 31/32	6 9/32 - 6 7/32
Treasury Bills	-	-	5 27/32 - 5¾	5 27/32 - 5 25/32	-	-
Bank Bills	-	-	5 29/32 - 5⅞	5⅞ - 5 27/32	5⅞ - 5 13/16	-
Local authority deps.	6 1/16 - 5 13/16	6 1/16 - 5 13/16	6 1/16 - 5 15/16	6 1/16 - 5 15/16	6 1/16 - 6	6⅜ - 6 1/16
Discount Market deps	6⅛ - 5¾	6 - 5⅞	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on May 10, 5.8154pc. ECGD fixed rate Stlg. Export Finance. Make up day Apr 30, 1996. Agreed rate for period May 26, 1996 to Jun 25, 1996, Schemes II & III 7.33pc. Reference rate for period Mar 30, 1996 to Apr 30, 1996, Schemes IV & V 6.079pc. Finance House Base Rate 6.5pc from May 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.95	93.92	-0.02	93.95	93.92	12683	74915
Sep	93.86	93.83	-0.04	93.88	93.81	14749	60360
Dec	93.61	93.55	-0.06	93.64	93.54	27307	70387
Mar	93.23	93.18	-0.05	93.27	93.16	10372	49381
Jun	92.83	92.79	-0.04	92.88	92.77	5534	39259

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9375	0.19	0.20	0.20	0.02	0.12	0.40
9400	0.03	0.07	0.11	0.11	0.24	0.56
9425	0	0.03	0.05	0.33	0.45	0.75

Est. vol. total, Calls 1077 Puts 1229. Previous day's open int., Calls 140986 Puts 123676

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00		
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00		
●Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	●Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	6.00		

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* In administration

EMS EUROPEAN CURRENCY UNIT RATES

May 15	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	159.578	+0.009	-1.79	3.13	12
Netherlands	2.15214	2.13767	-0.00055	-0.67	1.97	5
Belgium	39.3960	39.2966	-0.0227	-0.25	1.54	2
Germany	1.91007	1.91182	-0.00084	0.09	1.19	-1
Austria	13.4383	13.4526	-0.0071	0.11	1.17	-1
Portugal	195.792	196.452	-0.033	0.34	0.94	-2
Ireland	0.792214	0.798238	+0.00114	0.76	0.52	-5
France	6.40608	6.47219	-0.00112	1.03	0.25	-8
Denmark	7.28580	7.37908	-0.00342	1.28	0.00	-9
NON ERM MEMBERS						
Greece	292.867	303.273	+0.189	3.55	-2.19	-
Italy	2106.15	1937.97	+1.05	-7.99	10.07	-
UK	0.786652	0.822753	+0.001585	4.59	-3.16	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.490	2.52	2.78	3.10	0.15	0.47	0.95
1.500	1.78	2.13	2.55	0.37	0.77	1.31
1.510	1.13	1.53	2.03	0.71	1.16	1.73
1.520	0.65	1.05	1.55	1.23	1.69	2.26
1.530	0.32	0.68	1.17	1.90	2.32	2.81

Previous day's vol., Calls 12,237 Puts 12,387. Prev. day's open int., Calls 183,054 Puts 175,061

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.52	94.52	-	94.53	94.51	38,183	369,262
Sep	94.33	94.35	+0.02	94.36	94.33	48,797	359,107
Dec	94.07	94.09	+0.02	94.10	94.08	127,882	363,694

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.00	94.99	-	95.00	94.99	272	9,675
Sep	94.83	94.82	+0.02	94.83	94.82	322	5,324
Dec	-	94.63	+0.01	94.63	-	4	1,147

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
9675	0.04	0.10	0.12	0.14	0.04	0.08	0.10	0.12
9700	0	0.02	0.03	0.04	0.25	0.25	0.26	0.27
9725	0	0	0	0.01	0.50	0.48	0.48	0.49

Est. vol. total, Calls 4927 Puts 10836. Previous day's open int., Calls 351596 Puts 380788

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9800	0.03	0.10	0.14	0.11	0.31	0.52
9825	0.01	0.03	0.07	0.34	0.49	0.70

Est. vol. total, Calls 548 Puts 24. Previous day's open int., Calls 5195 Puts 3071

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9125	0.20	0.76	0.97	0.08	0.08	0.13
9150	0.07	0.56	0.78	0.20	0.13	0.19
9175	0.03	0.38	0.61	0.41	0.20	0.27

Est. vol. total, Calls 25 Puts 340. Previous day's open int., Calls 38100 Puts 24501

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	♣WN□	502	+5	598	476½	5,207	6.0	17.8
Bulmer (HP)	♣†	606	-1½	625	429	330.0	2.5	19.0
Burn St Dist	♣□	118xd	—	146	101	68.2	5.4	24.8
Glenmorangie A	♣†	633	—	680	600	89.7	2.2	17.8
Grand Met	♣□	446	+1	487	374	9,357	4.2	19.2
Guinness	♣□	480xd	+6	538	435	9,419	3.8	15.8
Highland	♣†□	376xd	-1	405	315	499.5	2.7	17.6
Kirin Y	□	898½	+30	879¼	627	8,804	0.7	32.2
Macallan-Glen	♣‡	172xd	+3	217	150	201.9	1.1	35.3
For MacDonald Martin see Glenmorangie								
Matthew Clark	♣♣†□	788	+4	788	580	695.8	3.5	-
Merrydown	♣†	131	—	140	68	14.3	1.9	-
Seagram $		£22½	+[illegible]	£25[illegible]	£17[illegible]	6,169	1.3	-

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Baring 8pc Cm 2nd Prf		60½#	—	69½	60½	6.31	16.8	-
Cater Allen	♣†	407	-1	525	405	132.7	9.2	8.7
Close Bros	♣†□	372	-6	*392	268½	448.3	3.0	16.5
Gerrard & Nat	♣	385	—	472	385	188.3	7.3	12.4
Hambros	N□	234	-2	252	180	414.2	4.0	-
7½pc Cv Pf		111	—	117	94½	143.8	8.4	-
King & Shaxson	♣□	172	—	173	103	45.4	6.5	13.4
Leopold J	♣†	453	—	463	353	24.0	5.2	15.6
Rea Brothers	♣	58xd	—	67	44	28.0	2.2	27.5
Schroders	♣□	1270	+5	1478	1099	1,917	1.8	17.7
N/V	♣	1020	-8	1180	890	448.8	2.0	14.3
Singer & Fried	♣□	112xd	—	116	90	221.2	4.5	9.3
8½pc Cv Ln 09/14		£136½	—	£137	£1[illegible]	41.9	6.3	-
Union	♣□	95	+1	121	71	25.3	3.9	[illegible]

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BREWERIES, PUBS & REST

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DISTRIBUTORS

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ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

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EXTRACTIVE INDUSTRIES - Cont.

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GAS DISTRIBUTION

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HEALTH CARE - Cont.

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LONDON SHARE SERVICE

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LEISURE & HOTELS - Cont.

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OTHER FINANCIAL - Cont.

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PHARMACEUTICALS - Cont.

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LUXEMBOURG (SIB RECOGNISED)

Fidelity Funds (a)

S-E-Banken Luxembourg SA - Contd.

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

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Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
(**) Funds not SIB recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(♥) - 0001 to 1100 hours
(♦) - 1101 to 1400 hours
(♣) - 1401 to 1700 hours
(♠) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
b - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
z - Previous day's price.
§ - Guernsey gross.
◆ - Yield before Jersey tax.
† - Ex-subdivision. xd - Ex-dividend.
ε - Only available to charitable bodies
ф - Yield column shows annualised rates of NAV increase.

The fund prices on these pages are also available on the internet at www.FT.com

LONDON STOCK EXCHANGE

MARKET REPORT

UK stocks in good form as Wall St nears record

By Steve Thompson, UK Stock Market Editor

Wall Street was again mainly responsible for the continuing strength of the UK equity market, with share prices in London ending a lively session only a fraction off the day's best levels.

The Dow Jones Industrial Average shot up 42 points on Tuesday evening and made rapid progress at the outset of trading yesterday, posting a gain of some 45 points within an hour of the start.

The US market drew much of its latest strength from a good early showing by Treasury bonds, in spite of some none too inspiring economic news. London dealers, pointing out that Wall Street is now only 50 points short of its all-time closing record, reached on April 3, said London could not resist the upward pressures from the US.

The FT-SE 100 closed 16.5 higher at 3,776.2 for a two-day gain of 37 points, or 1 per cent. The strength across the leaders did not carry over into the rest of the market, however. The FT-SE Mid 250, modestly ahead in the morning, eventually settled 1.0 down at 4,508.8. Turnover at 6pm was 539.8m shares.

London lacked support from the gilts market and never recovered from an uncertain start, closing with widespread losses in the wake of a series of disappointing economic news items.

These included a higher than forecast increase in underlying average earnings for March which, at 3.75 per cent on an annualised basis, was said by observers to rule out any lingering chances of a further reduction in UK interest rates.

The earnings report added to the market's unease which became apparent after the Bank of England warning on inflationary trends was published on Tuesday.

Some of the market's super optimists made the point, however, that anything is possible with a general election just around the corner.

The potential for share buybacks, one of the big positives for the market last year, was illustrated at the outset of trading when PowerGen, a late strong performer on Tuesday, confirmed its intention of buying back 10 per cent of its own shares, financed by the sale of its stake in Midlands Electricity.

Argyll, the Safeway supermarkets group, was another company to announce buyback news, telling shareholders of its intention to buy in 10 per cent of its own stock.

The big winners among the leaders, however, were the banks, which responded to a positive change of heart by stockbroker ABN-Amro Hoare Govett, plus continuing rumours of imminent takeover action concerning Bank of Scotland, Royal Bank of Scotland and Standard Chartered. Dealers said much of Tuesday's hectic activity, certainly in Royal Bank of Scotland, was down to the expiry of individually tailored stock options.

Grey market dealings commenced yesterday in Railtrack shares. IG Index said the stock opened at 209p before slipping back to 205p. Official trading starts on Monday.

Oil shares were heavily bought, led by Shell Transport, where the shares hit another all-time high ahead of today's presentation to analysts, which is expected to contain news of more cost cutting and the potential for a share split.

All-time high for Shell

Prospects of radical restructuring sent Shell Transport shares rocketing to an all-time closing high yesterday. The company is to start its annual international roadshow of presentations to analysts today, commencing with London.

There is an argument that it will use the occasion to announce big cost cutting in its European downstream operations. Although the numbers are hard to quantify because Shell does not break up its results sufficiently, some analysts believe Shell could reduce its European costs by up to 40 per cent.

The company is expected to cut staff and sell one or two refineries.

Merrill Lynch has been citing potential cost cuts as one reason to recommend the shares aggressively. It has told institutional investors that the stock is worth buying at up to 970p a share.

There was further support from a strong oil price, a comforting annual meeting statement yesterday, and a belief that disappointing fourth-quarter figures at the end of last year were an anomaly. There has also been strong buying in the US.

Consequently, the stock moved rapidly up the Footsie rankings with an advance of 25 to 939p.

Electronics group Amstrad, a strong market lately following an institutional visit, crashed lower on news that Dancall, its mobile handsets business, would not make a profits contribution this year.

Most analysts took a savage *knife to their forecasts, and the* shares reacted with equal violence. The stock ended as the day's heaviest faller, off 32½ at 173½p in above average turnover of 2.2m.

NatWest Securities had pencilled in £5m from Dancall for this year. But with the handset maker facing a price squeeze from industry oversupply, the broker has cut its estimate of total Amstrad profits for 1995-96 from £12m to £6.5m.

NatWest has also trimmed for next year, coming back by £4.5m to £22m. However, volume growth at Dancall remains impressive. "Amstrad is a quality stock, long term," the broker said.

Heavy derivatives trading in motor engineer Lucas Industries sent a buzz through the market. The shares ended 2 better at 233p in 4.6m trade, but it was the action in the option pits that caught the eye.

Lucas announced that it was in joint venture talks with Varity, of the US, earlier this month, since when speculative interest in the shares has been intense. Rumours of a counter-move within the industry have been rife, with Siemens, of Germany, topping most brokers' lists of possible predators.

Yesterday's options volume, the equivalent of 11.4m shares, appeared to be mostly made up of one big straddle trade of 5,000 lots. "It is a very positive punt," said one top options dealer.

Bank stocks moved higher as ABN Amro Hoare Govett raised its recommendation on the sector and one leading US broker was said to have carried out big business in tailor-made options.

ABN moved to "hold" from *"underweight" on the sector* and stressed its continued support for Lloyds TSB and Barclays, which it considers the cream of the crop. Lloyds TSB added 8¼ at 333p and Barclays 12½ at 775p.

A results meeting described as a curate's egg saw PowerGen retreat 10 to 537p.

The market had been worried that the company might refuse to carry out the £1.7bn sale of three power stations. PowerGen was less aggressive than feared and the shares were up 10 in early trading.

However, analysts had also factored in a 100p a share return to shareholders. In the event, PowerGen said it was prepared to hand back about half that amount, and then not for several months.

Subsequently the shares turned off, with additional impetus from the overhang of regulatory concern, which has been revived by the tough ruling *on British Gas. The latter's* shares dipped 6¼ to 188½p.

Airports group BAA took a knock as regulatory worries caught up with the stock.

The company negotiates on pricing with the Monopolies and Mergers Commission every five years. It is talking with the MMC currently, and analysts expect the results of the price review to be made public in July. The shares finished 4 cheaper at 529p in above average turnover of 3.9m.

P&O was also well dealt, touching a three-year volume peak of 11m as a big line of stock changed hands.

The company took analysts to Southampton on Tuesday for a cruise and container update; and yesterday it sold its remaining 5 per cent stake in Hong Kong's container terminal for £66m. The shares ended off 2 at 518p.

Biotechnology group Celltech jumped 38 to 673p, as it announced improved interim figures and said it had made important progress on several drug discovery programmes.

Conglomerate Williams Holdings shot ahead following news of £176m worth of French fire protection deals. The shares ended 7 better at 329p in 6m traded.

Courtaulds was the Footsie's star performer after BZW reiterated its buy stance on the stock, ahead of figures next week. The shares forged ahead 16 to 427p.

Food retailers were again a feature as Argyll Group published full-year figures.

However, the market was unexcited by the figures and one analyst said: "It is all a big yawn. It is all there, good profits, etc but so what."

The shares, which have outperformed the market by around 8 per cent since the beginning of the year, lost 3 to 340p in heavy trade of 8.4m.

Elsewhere in the sector, Asda Group was a good trade and volume jumped to 20m as the shares edged forward ¼ to 118¼p. Sentiment was said to have been enhanced by a positive presentation to investors on Tuesday at Kleinwort Benson. Tesco was reported to have made a presentation at the same meeting. The shares hardened 2 to 289p.

Marks and Spencer lost 5½ to 429p, ahead of results due next week, for which there is a wide span of forecasts. Analysts are worried about weaknesses in a number of lines, including ladies' outerwear.

Innovations, the mail order business, moved up 9 to 20½p on continuing speculation that a big rival might be interested in buying it.

In the drinks sector, Greenalls plunged 20½ to 590½p after its interims, with a number of marketmakers reducing their holdings.

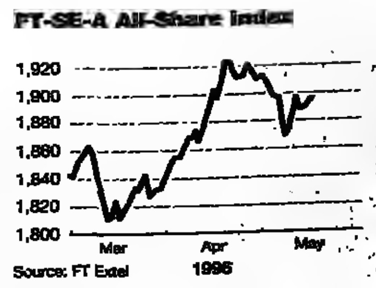
There was a large seller of Guinness, yet it was marked up 6 to 489p ahead of Grand Metropolitan's results due today, with the latter nudging up a penny to 446p.

Sparkling figures from Perpetual, the fund manager, saw the shares gain 100p to 2,458p. The dividend was lifted by 72 per cent.

Eurodis Electron rose as an oversupply position unwound, following the placing of the 40 per cent stake in the group held by Swiss utility Elektrowatt. The shares improved 4 to 230p in 47m traded.

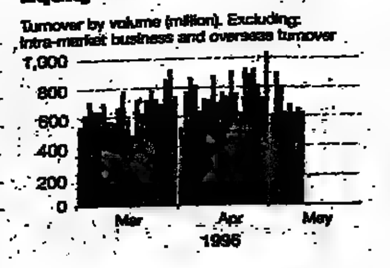
MARKET REPORTERS:
Peter John, Joel Kibazo, Jeffrey Brown, Lisa Wood.

FT-SE-A All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3776.2	+16.5
FT-SE Mid 250	4508.8	-1.0
FT-SE-A 350	1911.3	+6.4
FT-SE-A All-Share	1896.33	+6.08
FT-SE-A All-Share yield	3.73	3.74
FT Ordinary index	2812.6	+10.9
FT-SE-A Non Fins p/e	17.33	17.30
FT-SE100 Fut Jun	3782.00	+16.00
10 yr Gilt yield	8.04	7.98
Long gilt/equity yld ratio:	2.25	2.22

Best performing sectors

1	Oil Integrated	+2.4
2	Mineral Extraction	+1.9
3	Oil Exploration & Prod	+1.6
4	Banks: Retail	+1.1
5	Telecommunications	+1.0

Worst performing sectors

1	Gas Distribution	-3.2
2	Electricity	-1.3
3	Water	-0.9
4	Health Care	-0.7
5	Paper, Pckg & Printing	-0.6

FINANCIAL TIMES EQUITY INDICES

	May 15	May 14	May 13	May 10	May 9	Yr ago	*High	*Low
Ordinary Share	2812.6	2801.7	2794.5	2812.6	2784.5	2507.9	2865.2	2696.7
Ord. div. yield	3.95	3.96	3.98	3.96	4.00	4.26	4.08	3.76
P/E ratio net	16.56	16.48	16.42	16.48	16.35	16.13	17.25	15.96
P/E ratio nil	16.33	16.25	16.19	16.25	16.12	15.93	17.03	15.76

Ordinary Share index since compilation: high 2865.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2809.7	2809.5	2812.1	2807.9	2806.8	2810.8	2811.4	2810.1	2810.0	2812.6	2806.0

	May 15	May 14	May 13	May 10	May 9	Yr ago
SEAQ bargains	33,480	32,965	34,710	31,942	31,222	25,072
Equity turnover (£m)†	-	1725.3	1482.8	1977.4	1782.1	1853.3
Equity bargains†	-	37,690	39,918	37,577	38,242	38,062
Shares traded (ml)†	-	703.9	623.2	649.5	619.8	718.6

†Excluding intra-market business and overseas turnover.

	May 15	May 14	May 13	May 10	May 9	Yr ago	*High	*Low
FT-SE AIM	1072.10	1073.50	1066.60	1065.10	1065.10	-	1078.00	965.69

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	863	Total Highs	214	Total contracts	70,062
Total Falls	421	Total Lows	16	Calls	34,921
Same	1,482			Puts	35,141

May 15 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3781.0	3782.0	+16.0	3786.0	3766.0	10788	58612
Sep	3794.5	3797.0	+16.0	3795.0	3790.0	732	5865
Dec	-	3827.0	+16.0	-	-	0	247

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4520.0	4520.0	+10.0	4530.0	4520.0	12	4141

■ FT-SE 100 INDEX OPTION (LIFFE) (*3775) £10 per full index point

	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P
May	177½	½	127½	1	78	1	32	5	4½	29	1	78	1	128	1	178
Jun	188½	9	146½	16	107	25	71½	41	40½	63	24	93½	11	132	4	178
Jul	207½	19½	167	28½	138	41	98½	59½	69½	82	47	110½	30½	145	18½	185
Aug	224½	33½	187	46½	151	59	119½	77½	89½	99	64½	124½	44½	156½	28	192½
Dec†	288½	73			225½	108			167	149½			119	201½		

Calls 3,506 Puts 7,518

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P
May	152½	1	102½	1	54	2	14½	13	1	48	1	97½	1	147½	1	197½
Jun	168½	12½	128	19½	87½	31	57	50	33½	76	17	109½	7½	150	2½	194½
Jul	185½	22	147	33	112½	45	80	66	58	92½	38	122	23½	157	13	196
Sep	221½	53			153½	63			99	126½			61	169½		
Dec†	276½	81½			214½	118			159	157½			112½	207		

Calls 3,592 Puts 8,627 * Underlying index value. Premiums shown are based on settlement prices
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	21.2	135	115	†Active Imaging	118		-	-	-	-
-	F.P.	18.8	95	94	AIM Distron	94		b4.5	-	6.0	-
-	F.P.	1.39	11¼	7	Alexis Japan	7	+¼	-	-	-	-
-	F.P.	-	175	125	Biocompatible Unit	155	-5	-	-	-	-
105	F.P.	12.8	124	118	†CA Coutts	120		-	-	-	-
-	F.P.	13.2	1050	850	Cairngorm Units	925		-	-	-	-
100	F.P.	9.50	95	95	Capital Co's VCT	95		-	-	-	-
-	F.P.	7.84	39	39	†FNR	39		-	-	-	-
-	F.P.	24.0	97½	94	Gartmore Select	95	+1	-	-	-	-
-	F.P.	5.67	4½	3¾	†Just Group	4½	+¼	-	-	-	-
150	F.P.	52.9	160	155	†La Senza	158		-	-	-	-
-	F.P.	49.0	250	225	MSS Int'l	241		L4.0	3.0	2.1	20.0
-	F.P.	108.1	275	220	Maiden Group	275		R4.8	-	2.2	-
275	F.P.	488.0	336	275	Mill & Copthorne	330	+4	4.7	-	1.7	-
-	F.P.	5.37	143	136	Premiere Group	140	+2	L6.0	2.4	5.4	9.7
-	F.P.	40.0	68	43	†Reflec	56	+5	-	-	-	-
-	F.P.	-	98	98	Singer & Fdr AIM	98		-	-	-	-
-	F.P.	8.60	4½	3½	†Shs Bus Serv	4½	+¼	-	-	-	-
-	F.P.	6.55	95	75	†Stereor	93		-	-	-	-
-	F.P.	16.0	11	7¼	†Thomas Potts	10½		-	-	-	-
-	F.P.	2.99	56	43	†Tom Hoskins	53		-	-	-	-
-	F.P.	39.8	185	180	†Tradepoint Fincl	185		-	-	-	-
450	F.P.	148.1	633	566	Vanguard Medica	586	-12	-	-	-	-
45	F.P.	13.4	57	52	†Waterfall	52		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	May 14	% chg on day	May 13	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2370.40	+0.3	2362.73	1816.67	1.32	-	2626.73	1722.93
■ Regional Indices								
Africa (13)	3174.74	+1.0	3143.78	2525.56	2.30	38.10	3553.66	2272.74
Australasia (6)	2862.11	+0.8	2840.96	2282.41	2.50	28.28	2827.34	2096.61
North America (12)	2101.07	-0.1	2102.22	1841.18	0.66	67.96	2168.39	1486.94

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FT - SE Actuaries Share Indices — The UK Series

	May 15	Day's chge%	May 14	May 13	May 10	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3776.2	+0.4	3759.7	3739.2	3754.4	3297.4	3.86	2.15	14.87	72.43	1638.80
FT-SE Mid 250	4508.8	.....	4509.8	4512.4	4512.8	3619.2	3.32	1.76	21.44	77.90	1805.03
FT-SE Mid 250 ex Inv Trusts	4546.4	-0.1	4549.8	4554.9	4555.1	3620.8	3.42	1.81	20.21	82.94	1823.14
FT-SE-A 350	1911.3	+0.3	1904.9	1897.1	1903.1	1638.4	3.80	2.08	15.97	36.86	1592.16
FT-SE-A 350 Higher Yield	1831.2	+0.2	1826.8	1826.1	1833.3	1653.8	5.07	1.90	12.93	43.39	1274.75
FT-SE-A 350 Lower Yield	1998.7	+0.4	1990.3	1975.5	1980.4	1623.0	2.88	2.32	20.29	28.59	1390.48
FT-SE SmallCap	2236.43	+0.2	2232.88	2228.52	2224.35	1850.19	2.90	1.78	24.21	24.68	1829.37
FT-SE SmallCap ex Inv Trusts	2233.62	+0.1	2230.76	2226.99	2221.99	1827.17	3.07	1.87	21.82	25.79	1837.86
FT-SE-A ALL-SHARE	1896.33	+0.3	1890.25	1882.84	1888.05	1620.79	3.73	2.04	16.41	34.38	1604.19

■ FT-SE Actuaries All-Share

	May 15	Day's chge%	May 14	May 13	May 10	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3575.48	+1.9	3509.65	3455.42	3474.70	2889.46	3.65	1.80	19.06	78.92	1540.38
12 Extractive Industries(6)	4669.16	-0.4	4687.93	4612.70	4659.83	3830.07	3.46	2.50	14.45	109.19	1373.99
15 Oil, Integrated(3)	3590.27	+2.4	3506.74	3448.44	3467.93	2889.69	3.86	1.68	19.31	81.64	1566.51
16 Oil Exploration & Prod(15)	2530.32	+1.6	2490.23	2482.17	2471.93	2075.45	2.07	1.60	37.68	32.05	1522.20
20 GEN INDUSTRIALS(275)	2141.65	.....	2140.71	2133.48	2135.84	1952.68	3.96	1.69	16.69	33.80	1168.65
21 Building & Construction(34)	1224.14	-0.3	1228.39	1231.44	1234.70	1004.99	3.37	1.80	20.68	18.11	1024.58
22 Building Matls & Merchs(29)	1972.45	-0.3	1979.03	1957.32	1966.29	1846.06	3.85	1.75	18.62	38.36	997.67
23 Chemicals(25)	2551.71	+0.7	2534.75	2528.84	2534.21	2385.25	3.88	1.94	16.63	37.65	1206.07
24 Diversified Industrials(19)	1786.05	-0.4	1792.67	1788.51	1796.57	1676.03	5.78	1.68	12.87	44.82	1001.38
25 Electronic & Elect Equip(37)	2445.31	-0.1	2448.43	2424.84	2414.65	2034.56	3.00	1.68	24.89	13.45	1261.64
26 Engineering(71)	2475.68	+0.6	2461.08	2459.40	2455.60	1925.30	3.09	2.49	16.22	28.63	1499.84
27 Engineering, Vehicles(13)	3039.91	+0.6	3020.29	3016.73	3042.66	2322.42	3.51	1.89	18.89	48.83	1576.21
28 Paper, Pckg & Printing(26)	2785.96	-0.6	2802.17	2799.82	2803.70	2946.78	3.65	2.03	16.83	41.62	1160.27
29 Textiles & Apparel(19)	1407.53	-0.2	1410.53	1423.39	1422.41	1646.24	5.02	1.54	16.22	28.70	880.57
30 CONSUMER GOODS(80)	3494.78	+0.3	3483.60	3480.04	3479.05	3047.76	4.01	1.85	16.87	74.71	1295.60
32 Alcoholic Beverages(8)	2893.08	+0.8	2871.43	2871.60	2865.54	2737.12	4.29	1.63	17.87	58.02	1045.10
33 Food Producers(23)	2476.77	-0.2	2481.80	2483.69	2485.84	2428.47	4.18	1.82	16.41	55.04	1122.71
34 Household Goods(18)	2686.72	-0.2	2693.37	2690.07	2691.37	2581.47	3.70	2.41	14.03	51.90	1029.23
36 Health Care(20)	2089.27	-0.7	2103.98	2104.54	2104.59	1764.99	2.54	1.88	26.21	27.65	1271.87
37 Pharmaceuticals(12)	4894.25	+0.7	4858.64	4838.62	4833.95	3740.48	3.48	1.86	19.29	91.18	1665.60
38 Tobacco(1)	4133.78	-0.5	4154.97	4180.38	4193.09	4124.24	6.15	2.00	10.18	156.18	1038.38
40 SERVICES(253)	2529.77	-0.1	2531.72	2519.10	2520.56	2025.79	2.79	2.03	22.08	32.79	1314.41
41 Distributors(32)	2926.07	-0.5	2939.81	2946.60	2941.62	2543.89	2.87	1.77	24.56	36.69	1079.36
42 Leisure & Hotels(23)	3213.63	-0.1	3217.90	3204.95	3214.27	2292.40	2.74	1.98	23.40	141.77	1730.64
43 Media(46)	4270.54	+0.1	4264.61	4228.94	4235.19	2972.61	2.09	1.95	30.81	46.94	1546.94
44 Retailers, Food(15)	2016.07	+0.3	2009.71	1980.37	1982.37	1939.49	3.76	2.33	14.28	19.54	1274.56
45 Retailers, General(43)	2051.04	-0.5	2060.65	2050.83	2057.71	1896.25	2.95	2.20	19.32	19.64	1167.81
47 Breweries, Pubs & Rest.(24)	3138.61	-0.4	3150.60	3148.25	3136.94	2347.90	3.19	2.07	18.89	16.79	1497.11
48 Support Services(49)	2382.09	+0.8	2363.50	2365.39	2373.41	1590.97	1.92	2.46	26.46	23.28	1514.77
49 Transport(21)	2440.30	-0.3	2447.61	2435.40	2433.09	2324.65	3.56	1.40	25.10	28.66	1014.23
60 UTILITIES(33)	2383.72	-0.3	2391.69	2419.52	2467.20	2358.19	5.27	2.03	11.66	48.63	1011.04
62 Electricity(12)	2763.78	-1.3	2799.98	2829.80	2846.60	2233.81	5.27	2.47	9.59	137.11	1330.28
64 Gas Distribution(2)	1271.58	-3.2	1313.18	1351.58	1524.49	2013.99	9.42	1.36	9.77	64.69	665.81
66 Telecommunications(7)	1992.33	+1.0	1971.67	1988.46	2009.01	2057.25	4.24	1.75	16.82	0.15	901.85
68 Water(12)	2082.61	-0.9	2101.12	2125.54	2133.18	1866.97	5.86	2.59	8.25	3.61	1129.38
69 NON-FINANCIALS(685)	2016.79	+0.2	2012.14	2008.34	2013.88	1744.90	3.74	1.93	17.33	34.94	1530.12
70 FINANCIALS(100)	2928.58	+0.7	2907.45	2882.27	2878.26	2358.18	4.06	2.63	11.69	70.71	1267.41
71 Banks, Retail(8)	3981.06	+1.1	3937.32	3890.32	3871.32	3174.73	3.91	2.89	11.07	107.54	1310.23
72 Banks, Merchant(6)	3536.24	-0.2	3543.59	3542.01	3546.58	3243.91	2.79	2.38	18.85	38.38	1120.22
73 Insurance(23)	1522.86	+0.2	1519.78	1503.60	1515.54	1300.79	5.18	3.15	7.67	47.23	1153.03
74 Life Assurance(6)	3612.84	-0.1	3617.11	3608.02	3608.87	2614.49	4.14	2.24	13.47	100.72	1514.57
77 Other Financial(21)	2680.74	+0.6	2665.48	2667.53	2669.77	2034.86	3.64	1.82	18.89	29.60	1520.61
79 Property(41)	1577.43	+0.4	1570.89	1567.65	1571.77	1392.18	4.00	1.32	[illegible]	13.94	985.67
80 INVESTMENT TRUSTS(126)	3250.75	+0.4	3236.90	3221.36	3221.84	2790.68	2.13	1.06	55.28	24.55	1133.79
89 FT-SE-A ALL-SHARE(896)	1896.33	+0.3	1890.25	1882.84	1888.05	1620.79	3.73	2.04	16.41	34.39	1604.19
FT-SE-A Fledgling	1254.74	+0.4	1249.83	1248.20	1243.02	1001.06	2.73	2.18	20.95	12.53	1310.17
FT-SE-A Fledgling ex Inv Trusts	1264.10	+0.4	1259.05	1255.44	1251.91	994.68	2.95	2.38	17.93	13.64	1320.15

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3772.5	3770.9	3775.9	3768.4	3767.1	3769.8	3773.2	3769.8	3774.9	3776.4	3765.7
FT-SE Mid 250	4516.3	4517.8	4515.9	4514.5	4513.8	4512.0	4512.0	4511.1	4508.9	4518.6	4508.8
FT-SE-A 350	1910.6	1910.1	1911.9	1908.8	1908.2	1909.1	1910.4	1909.0	1910.8	1912.1	1907.7

Time of FT-SE 100 Day's high: 10:22 AM Day's low: 11:24 AM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 3654.2 (23/01/96).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1210.4	1209.6	1207.9	1205.8	1203.8	1202.5	1201.9	1201.9	1201.0	1201.0	1210.0	-9.0
Pharmaceuticls	4800.8	4803.9	4813.4	4794.1	4797.5	4799.0	4799.0	4805.8	4817.4	4820.6	4785.4	+35.2
Water	2094.0	2097.9	2098.7	2096.6	2094.9	2092.3	2090.4	2088.0	2073.7	2073.5	2092.4	-18.9
Banks, Retail	4002.7	3997.5	4031.0	4020.9	4014.7	4025.9	4031.5	4016.8	4031.3	4031.9	3987.6	+44.3

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.
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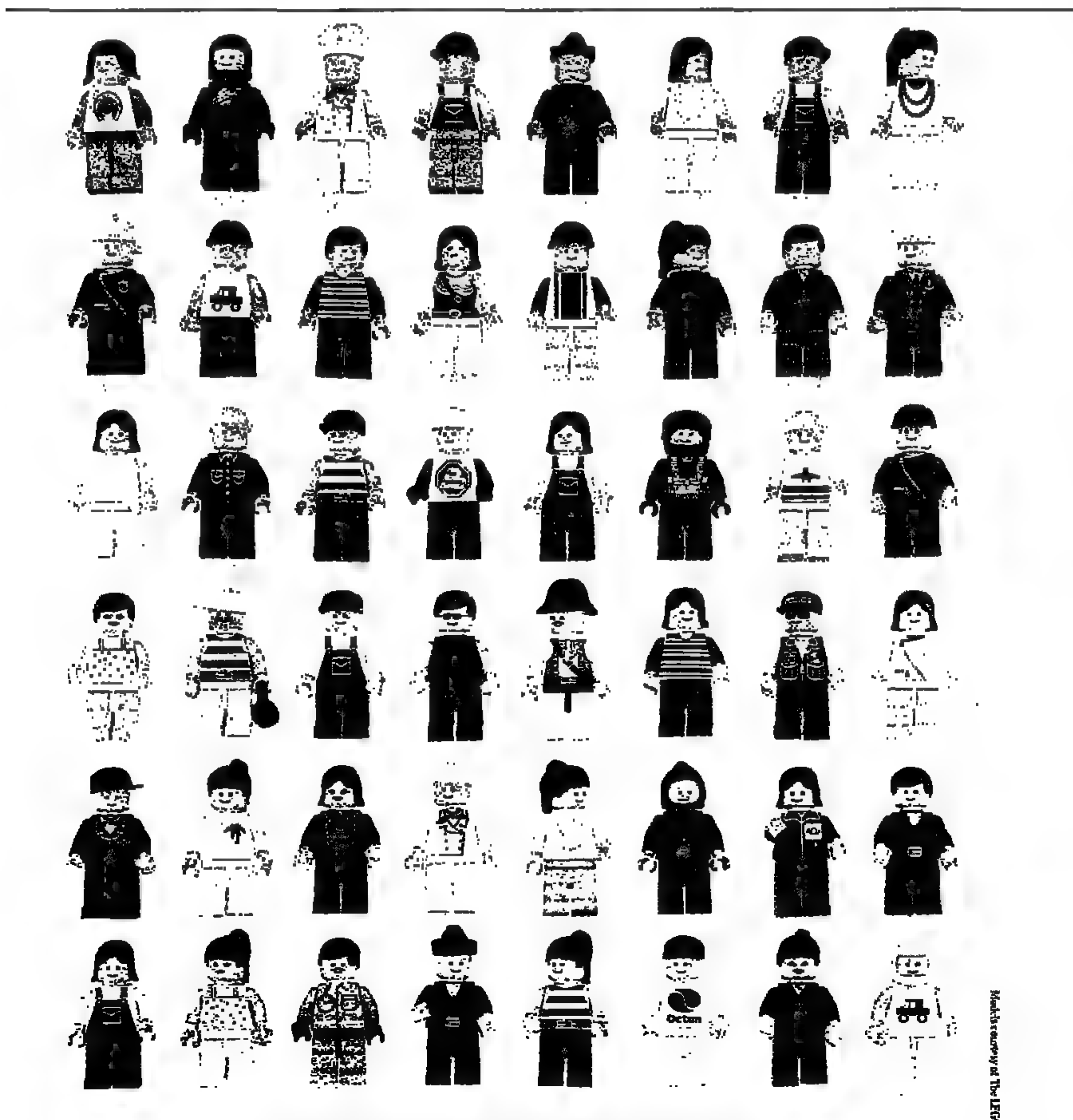
TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	211	489	+1
ASDA Group†	20,000	118¼	+¼
Abbey National†	3,200	574	+8
Albert Fisher	2,800	52	+½
Allied Domecq†	881	502	[illegible]
Anglian Water	662	560	[illegible]
Argos†	77	560	[illegible]
Argyll Group†	8,400	340	-3

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded. Source: FT Extel.



SPOT THE REFUGEE

There he is. Fourth row, second from the left. The one with the moustache. Obvious really.

Maybe not. The unsavoury-looking character you're looking at is more likely to be your average neighbourhood slob with a grubby vest and a weekend's stubble on his chin.

And the real refugee could just as easily be the clean-cut fellow on his left.

You see, refugees are just like you and me.

Except for one thing.

Everything they once had has been left behind. Home, family, possessions, all gone. They have nothing.

And nothing is all they'll ever have unless we all extend a helping hand.

We know you can't give them back the things that others have taken away.

We're not even asking for money (though every cent certainly helps).

But we are asking that you keep an open mind. And a smile of welcome.

It may not seem much. But to a refugee it can mean everything.

UNHCR is a strictly humanitarian organization funded only by voluntary contributions. Currently it is responsible for more than 19 million refugees around the world.

UNHCR Public Information
P.O. Box 2500
1211 Geneva 2, Switzerland

UNHCR
United Nations High Commissioner for Refugees

INT

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 15 / Sch)

BELGIUM/LUXEMBOURG (May 15 / Frs.)

CZECH REP (May 15 / Koruna)

DENMARK (May 15 / Kr)

FINLAND (May 15 / Mks)

FRANCE (May 15 / Frs.)

GERMANY (May 15 / Dm.)

GREECE (May 15 / Drachma)

ITALY (May 15 / Lire)

NETHERLANDS (May 15 / Fls.)

NORWAY (May 15 / Kroner)

POLAND (May 15 / Zloty)

PORTUGAL (May 15 / Escudo)

SPAIN (May 15 / Pts.)

SWEDEN (May 15 / Kronor)

SWITZERLAND (May 15 / Frs.)

TURKEY (May 15 / Tk Lira)

PACIFIC

JAPAN (May 15 / Yen)

HONG KONG (May 15 / H.K.$)

INDONESIA (May 15 / Rupiah)

MALAYSIA (May 15 / MYR)

NEW ZEALAND (May 15 / NZ $)

SINGAPORE (May 15 / S$)

AUSTRALIA (May 15 / Aust$)

SOUTH KOREA (May 15 / Won)

TAIWAN (May 15 / TW $)

THAILAND (May 15 / Baht)

AFRICA

SOUTH AFRICA (May 15 / Rand)

NORTH AMERICA

CANADA

TORONTO (May 15 / Can $) 4 pm close

MONTREAL (May 15 / Can $) 4 pm close

Sales	Stock		+/–	High	Low
883025	Abitibi	19¾	+⅛	23⅝	18⅛
34211	AgnEag	27¾		28	17¼
716200	AirCda	6⅛		8⅝	4½
53861	AlbtaE	24⅞	–⅛	27¼	21⅜
688727	AlcnAl	44¾	–⅛	48⅞	38¾
81323	AlcoCl	18⅞	+⅛	19⅝	17⅞
376518	Avenor	23¼	+¼	25½	18⅞
12381	BCSugA x	10¾		11⅛	8⅝
148083	BC Tel	26⅝	+⅛	27	24⅞
1607810	BCE	54⅝		64⅞	47
28887	BCE Mb	45½	+¼	48½	43½
13050	BGR A	20¾		20⅝	13¼
704420	BkMont x	33⅝		33⅞	30⅛
823098	BkNovS	31⅞	+⅛	32¼	29⅝
645526	BrckGd	43¼	+⅛	45	38¾
64323	BeauEx	2.01		2.23	1.51

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	May 15	May 14	May 13	1996 High		Low	
India BSE Sens.(1979)	3796.29	3810.13	3750.37	3869.87	24/4	2826.08	25/1
Indonesia Jakarta Comp.(10/8/82)	619.84	618.02	621.49	630.21	24/4	512.49	2/1
Ireland ISEQ Overall(4/1/88)	2534.0	2536.00	2531.01	2539.09	1/5	2234.61	2/1
Italy Banca Comm Ital(1972)	685.42	688.95	683.39	698.95	14/5	572.21	23/3
MIB General(2/1/95)	1128.0	1131.0	1125.0	1131.00	14/5	970.08	27/3
Japan Nikkei 225(16/5/49)	22055.97	21301.05	21171.82	22282.05	24/4	19734.70	13/3
Nikkei 300(1/10/82)	312.77	305.38	303.13	318.06	26/4	284.48	11/3
Taiwan WeightedPr.**(30/6/66)	6095.41	6155.83	6127.19	6182.70	29/4	4690.22	8/2
Thailand Bangkok SET(30/4/75)	1326.60	1319.26	1324.50	1416.04	8/2	1247.79	13/3
Turkey Istanbul Cmp.(Jan 1986)	64562.1	67768.5	67704.4	72096.80	8/4	38779.30	2/1
WORLD MS Capital IntS(1/1/70)	777.4*	772.8	769.9	779.40	29/4	725.90	15/1
CROSS-BORDER Eurotrack 100(26/10/90)	1682.60	1678.81	1668.58	1692.57	26/4	1504.40	11/1
Euro Top-100(26/6/90)	1447.38	1444.20	1436.0	1458.29	25/4	1333.01	11/1
HSBC JC Drgn(31/12/88)	(u)	377.73	377.24	383.18	16/4	344.19	2/1
ING Brngs Emrg(7/1/92)	163.38	164.14	163.09	164.14	14/5	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x index)							
May	2118.0	2118.0	+3.5	2117.0	2105.0	9,620	32,956
Jun	2095.5	2095.5	+3.55	2096.5	2085.0	288	31,163
DAX							
Jun	2534.0	2538.5	+5.5	2538.0	2525.5	17,558	–
Sep	2552.5	2555.0	+6.0	2555.5	2544.5	589	–
OMX							
Apr	–	1518.00	–	–	–	–	–
May	–	1510.50	–	–	–	–	–
SOFFEX							
May	3584.0	3563.0	–21.0	3591.0	3560.0	5,609	11,544
Jul	–	3542.5	–	–	–	300	2,638

** Sat May 11: Taiwan Weighted Price 6146.77; Korea Comp Ex 970.84. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: May 15 - 2534.40 +8.20.

US INDICES

Dow Jones	May 14	May 13	May 10	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5624.71	5582.60	5518.14	5689.74 (3/4)	5032.94 (10/1)	5689.74 (3/4/96)	41.22 (2/7/32)
Home Bonds	101.44	101.34	101.25	106.89 (14/2)	101.19 (8/5)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2229.22	2225.81	2187.82	2229.22 (14/5)	1882.71 (18/1)	2229.22 (14/5/96)	12.32 (8/7/32)
Utilities	213.74	213.32	211.76	234.80 (12/2)	205.42 (7/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5663.12 (5601.80) Low 5566.12 (5495.42) (Theoretical♠)
Day's high 5633.57 (5587.40) Low 5581.98 (5516.47) (Actual♠)

Standard and Poors	May 14	May 13	May 10	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	665.60	661.51	652.09	665.60 (14/5)	598.48 (10/1)	665.60 (14/5/96)	4.40 (1/6/32)
Industrials♥	780.95	785.26	772.86	780.95 (14/5)	702.07 (15/1)	780.95 (14/5/96)	3.62 (21/6/32)
Financial	66.44	66.07	65.43	68.58 (5/3)	58.67 (10/1)	68.58 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	355.52	354.33	350.02	358.52 (14/5)	321.41 (10/1)	358.82 (14/5/96)	4.46 (25/4/42)
Amex Mkt Val	600.78	597.25	591.33	600.78 (14/5)	529.05 (18/1)	600.78 (14/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1234.49	1221.87	1202.78	1234.49 (14/5)	988.57 (15/1)	1234.49 (14/5/96)	54.87 (31/10/72)

RATIOS

	May 10	May 3	Apr 26	Year ago
Dow Jones Ind. Div. Yield	2.20	2.21	2.17	2.47
	May 8	May 1	Apr 24	Year ago
S & P Ind. Div. yield	1.92	1.88	1.87	2.22
S & P Ind. P/E ratio	21.26	21.60	21.43	18.70

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Medpartners	6,805,800	25	-1⅛
Coca Cola	6,665,000	44⅜	+1⅝
Enersis SA	6,034,500	30⅛	-⅛
Caremark Inc	5,768,100	29½	+⅞
Wal-Mart Str	5,575,200	24¾	+⅜
Hithsource	5,505,400	22⅞	-1¼
General Mtrs	5,492,800	54¾	+2⅛
Home Depot	5,178,400	53⅛	+1⅛
Corning Inc	4,443,300	37¾	+2⅜
Zenith	4,115,500	13⅝	-1¼

TRADING ACTIVITY

● Volume (million)

	May 14	May 13	May 10
New York SE	451.401	384.159	428.383
Amex	29.941	28.659	25.661
NASDAQ	713.086	611.793	621.429
NYSE			
Issues Traded	3,166	3,137	3,145
Rises	1,526	1,689	1,715
Falls	864	700	717
Unchanged	776	748	713
New Highs	214	158	120
New Lows	9	8	9

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
S&P 500							
Jun	667.20	668.35	+1.05	668.80	667.00	80,389	187,080
Sep	–	673.90	+0.95	674.50	673.00	1,266	13,601
Nikkei 225							
Jun	21820.0	22070.0	+800.0	22110.0	21600.0	47,831	275,857
Sep	21850.0	22120.0	+740.0	22120.0	21640.0	1,650	18,970

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Wednesday, May 15, 1996

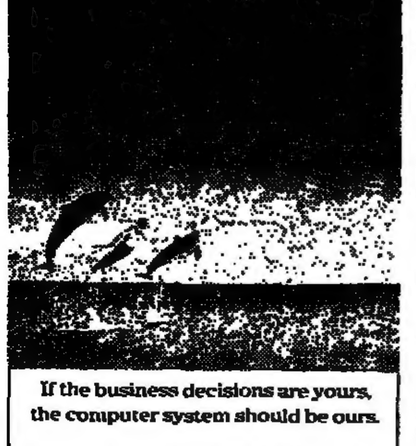
	Stocks Traded	Closing Prices	Change on day
Nippon Stl Corp	11.1m	375	+15
Copal	7.8m	1110	+100
Nihon Nosan Kgyo	6.2m	506	+43
NKK Corp	5.8m	330	+18
Sumitomo Mtl Corp	5.5m	335	+15
Mitsubishi Heavy	5.2m	936	+21
Kinki Sharyo	5.1m	820	+51
Toshiba Corp	4.8m	802	+18
Kawasaki Steel	4.8m	391	+6
Daiichi Kangyo B	4.8m	2020	+10

NEW YORK STOCK EXCHANGE PRICES

4 pm close May 15

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22⅞	19⅛	AAR	0.48	2.1	24	214	u22⅞	22⅝	22⅞	+⅛
48⅛	36⅞	AMP x	1.00	2.3	21	4404	43	42½	42⅝	+¼
94⅝	68	AMR			23	8639	u94⅝	90⅝	93¾	+2⅞
50½	37⅞	ASA x	1.80	4.0	29	347	45⅞	45⅛	45⅛	-⅝
44¾	38⅛	AbbtL	0.96	2.3	18	13608	41⅛	40½	41	+½
17¼	13⅞	AbitibiPr	0.40	2.8	7	1371	14⅝	14⅛	14½	+¼
36	27	ABM Ind	0.70	2.0	18	330	u36	35½	35¾	+½
16¾	13⅞	Acptncein			43	226	u16¾	16⅛	16⅝	+¼
50⅛	37¼	ACE Ltd	0.56	1.3	10	1306	44	43⅛	43⅛	-⅛
9⅞	9⅛	ACM Gvt In x	0.90	9.2	6	71	9¾	9⅝	9¾	+⅛
7⅞	6¾	ACM GvOpp x	0.57	8.3		178	6⅞	6⅞	6⅞	
7¼	6¼	ACM Gvt Sp x	0.66	10.4		199	6½	6⅜	6⅜	-⅛
9⅛	8¼	ACM Gvt Se x	0.90	10.6		190	8⅝	8½	8½	
9½	8¾	ACM Man x	0.90	9.9		275	9⅛	9	9⅛	+⅛
30¾	16½	AcmeClv x	0.52	1.7	7	5	30	30	30	-⅛
13⅞	6⅛	Acme Elect			65	813	12⅜	10⅝	11¾	-½
32½	27¾	Acordia	0.72	2.2	19	z100	32	32	32	+⅛
21⅞	12	Acuson			93	10148	20⅝	19⅝	20½	
19½	18⅞	Adams Expr	1.66	8.7	0	105	19⅛	19	19⅛	+⅛
21¾	16⅛	AdvMic			7	5192	18½	18¼	18⅜	-⅜
11⅛	8½	Advest Grp	0.16	1.5	7	91	10⅞	10¾	10¾	-⅛
26⅛	9⅛	Advo Inc	0.10	0.9	62	828	11⅜	11¼	11¼	-⅛
60⅜	41⅛	Aegon	1.23	2.5	15	103	50	49½	49¾	-⅛
5½	3½	Aeroflex			3	1176	u5½	5¼	5½	+⅛
78¾	66⅜	AetnaL	2.76	3.9	18	8884	71⅞	71	71	
33	28¾	Afac x	0.40	1.3	13	1147	31⅝	31⅛	31⅜	-½
30⅞	17½	AGL Res	1.06	6.0	15	343	18⅛	17¾	17¾	-½
26⅝	21¼	Ahmanson x	0.88	3.6	7	11673	25	24½	24⅞	+¼
59¼	50⅜	AirPrC	1.04	1.8	15	2812	u59¼	58½	58¾	+¼
28⅜	23½	Airbrne Frt x	0.30	1.2	23	350	25⅞	25¼	25⅞	-⅛
22½	15½	Airgas Inc			35	1988	21⅞	21	21½	+⅞
18⅞	15	Airlease	2.00	11.7	10	185	17⅛	16⅞	17⅛	+¼

Perfect synergy.



If the business decisions are yours, the computer system should be ours.

http://www.hp.com/go/computing

HEWLETT PACKARD

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AMEX PRICES

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AMERICA

Boost for tech stocks leads equities higher

Wall Street

Signs that computer sales remained strong boosted the technology sector and helped to lead the broader market higher at midsession, *writes Lisa Bransten in New York.*

Both the technology-rich Nasdaq composite and the Standard & Poor's 500 posted gains, putting them on track to surpass the closing records set on Tuesday. The S&P was 2.26 stronger at 667.86 and the Nasdaq had added 7.29 at 1,234.49 by 1 pm.

During morning trade, the Dow Jones Industrial Average came within 17 points of the closing peak of 5,689.74 set on April 3. By 1 pm, however, the Dow was off its session high and displayed a gain of 28.07 at 5,652.78. The American Stock Exchange composite edged up 0.91 to 601.69. New York SE volume had reached 272m shares.

Leading the technology shares higher was Dell Computer, which reported after the market closed on Tuesday that its earnings rose 33 per cent to 84 cents a share in its first quarter, 11 cents ahead of the mean estimate from analysts. The computer maker climbed $4¼ or 9 per cent to $51⅝.

Applied Materials also announced stronger than expected earnings late on Tuesday, but the shares slipped $⅛ to $39⅝. Earnings at the semiconductor company were $1.01 per share, just a cent ahead of estimates.

Internet-related companies were particularly strong on a spate of separate announcements. The Interactive Week index of Internet companies added 1.4 per cent in midsession trading.

Netscape Communications, the Internet software company, was up $4 or 6 per cent at $70½ after the company announced that Hewlett-Packard would include Netscape products in the software products that accompany its personal computers. HP shares added $1⅞ at $114⅝.

PSINet, the Internet service provider, appreciated $1 or 6 per cent to $18⅝ after announcing that it had hired Merrill Lynch, the US investment bank, to help in the possible sale of an interest in the company. Netcom On-line Communication Services, another service provider, moved ahead $2⅝ or 8 per cent to $39⅞.

The entire sector had posted good gains since late last month when MFS Communications, the specialty telecommunications company, agreed to acquire UUNet, another service provider.

Elsewhere, Woolworth hardened $⅝ to $19⅝ after reporting a smaller than expected loss for the first quarter. The retailer revealed a deficit of 17 cents a share, 13 cents a share less than most analysts had forecast.

Canada

Toronto moved ahead to a new intra-day record high in late morning trade, bolstered by advances in consumer products, banks and golds. By noon, the TSE-300 index had edged back from a peak of 5,228.91, but it was still 17.51 up at 5,224.10 in very heavy volume of 63.6m shares.

Analysts noted strength in banks as investors sold base metal stocks to switch into interest rate-sensitive issues.

Among energy stocks, which dominated the top 10 most active issues, Ranger Oil rose 30 cents to C$9.90.

QLT PhotoTherapeutics advanced C$2.20 to C$29.90 on news that its light therapy could be used to treat eye diseases. Potash Corp of Saskatchewan jumped C$4.60 to C$91.20 in moderate trading.

SOUTH AFRICA

Johannesburg was mixed, with industrials reversing sharp early gains on profit-taking and golds firm on a marginally better bullion price. The overall index ended 19.0 down at 6,826.0, industrials finished 44.3 lower at 7,952.9 and golds picked up 19.7 to 2,020.2. De Beers shed 50 cents to R143.

Buenos Aires ahead 2% by noon

A rally in ADRs helped BUENOS AIRES to a midsession gain of 1.9 per cent. The Merval index was up 11.65 at 595.83. Brokers noted that the ADRs of YPF, the oil group, were 3 per cent ahead in early dealings on Wall Street. They also said that hopes for an upturn in the economy were helping sentiment.

SAO PAULO, which had risen nearly 1 per cent on Tuesday, continued to gain ground, the Bovespa index adding 531.18 at 54,802 by midsession. Investors were encouraged by a vote in the lower house which had approved a bill regulating the opening up of cellular, satellite and wireless communications.

Analysts said first-quarter results from Telebras later in the session could provide additional support. Brokers' estimates were for profits of between $400m and $600m.

MEXICO CITY started slightly weaker as investors took profits and by midsession the IPC index was 32.22 points easier at 3,218.11.

A fall in domestic interest rates late on Tuesday provided some support, but activity was generally muted.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms May 10 1996	Dollar terms % Change over week	Dollar terms % Change on Dec '95	Local currency terms May 10 1996	Local currency terms % Change over week	Local currency terms % Change on Dec '95
Latin America	(247)	525.18	+2.4	+11.3			
Argentina	(31)	889.49	+2.7	+11.1	545,390.23	+3.0	+11.0
Brazil	(68)	342.46	+2.9	+12.2	1,273.71	+3.1	+14.7
Chile	(43)	749.85	+2.5	+0.2	1,210.38	+1.6	-0.8
Colombia[1]	(15)	648.31	-0.5	+8.4	1,219.07	-0.6	+16.2
Mexico	(65)	538.55	+2.2	+18.8	1,729.19	+1.8	+14.8
Peru[2]	(20)	204.48	-3.2	+3.7	302.23	-2.4	+8.8
Venezuela[3]	(5)	493.45	+8.7	+47.6	5,293.07	+8.7	+102.8
Asia	(631)	271.63	-0.3	+18.7			
China[4]	(23)	57.51	-3.8	+8.3	60.47	-3.8	+6.4
South Korea[5]	(145)	132.09	-2.2	+4.9	136.14	-2.2	+5.2
Philippines	(35)	308.61	+6.5	+18.9	390.04	+6.6	+18.6
Taiwan, China[6]	(85)	138.33	-1.3	+22.7	141.08	-1.3	+22.1
India[7]	(76)	100.72	-3.6	+25.3	125.56	-2.0	+25.1
Indonesia[8]	(44)	126.99	+2.0	+15.8	160.84	+2.1	+18.0
Malaysia	(123)	324.13	-1.2	+19.5	297.64	-1.5	+17.1
Pakistan[9]	(25)	302.55	+8.8	+24.7	478.77	+8.8	+27.0
Sri Lanka[10]	(5)	109.51	+0.4	+5.2	130.89	+0.4	+8.3
Thailand	(72)	364.41	+0.6	+2.3	385.30	+0.5	+2.5
Euro/Mid East	(238)	140.96	-1.2	-0.5			
Greece	(47)	245.44	+1.1	+1.6	404.36	+1.2	+4.5
Hungary[11]	(8)	161.05	+4.3	+63.6	286.85	+4.6	+77.3
Jordan	(8)	174.70	-1.9	-5.4	260.78	-1.9	-5.4
Poland[12]	(22)	694.65	+6.9	+62.9	1,161.15	+6.8	+75.4
Portugal	(26)	122.29	-0.4	+5.6	131.75	-0.6	+10.8
South Africa[13]	(63)	231.90	-1.8	-10.1	209.01	-2.4	+7.6
Turkey[14]	(54)	144.42	-3.6	+38.2	5,209.04	-2.8	+74.3
Zimbabwe[15]	(5)	368.21	+1.9	+34.1	533.05	+2.1	+41.4
Composite	(1116)	304.95	+0.3	+10.6			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Aug 2 1993; (15)July 2 1993.

Malaysia has been chosen by Mr Alan Butler-Henderson, Asian strategist for ING Barings, as the pick of the region. Mr Butler-Henderson believes that the ringgit, the Malaysian currency, will appreciate significantly during the rest of the year, but that domestic interest rate cuts would lead to an equity rally in the second half of the year. Other recommendations include positive views on Thailand and the Philippines, while heunderweights Singapore and Indonesia.

● *UBS Securities has downgraded its recommendation on Brazil to neutral from* overweight and raised Argentina to overweight from neutral. The broker says that it has cut Brazil's allocation in its Latin American equities portfolio by 3.6 percentage points to 31.5 per cent. "Mass consumption, the country's main economic driving force, is weakening due to a significant rise in unemployment combined with lower real wages compared to 1995 levels," the company explains. Argentina's weighting has been raised by 1.4 percentage points to 13.0 per cent, on the basis that the country's economy is showing signs of recovery.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MAY 14 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div Yield	MONDAY MAY 13 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (80)	208.75	0.5	204.23	139.80	166.78	173.04	0.3	3.98	207.67	203.38	137.80	165.58	172.49	212.15	152.88	173.86
Austria (25)	184.98	0.3	180.96	123.89	147.80	147.73	0.5	1.90	184.42	180.59	122.37	147.04	146.95	199.28	168.11	186.83
Belgium (27)	207.55	0.3	203.05	139.00	165.82	161.74	0.5	4.12	206.92	202.62	137.30	164.98	160.86	215.81	186.06	193.86
Brazil (26)	184.16	-1.0	180.60	109.94	131.15	301.16	-0.7	2.15	165.75	162.31	109.98	132.15	303.32	170.25	123.97	143.86
Canada (99)	164.22	0.3	160.67	109.96	131.21	162.59	0.1	2.34	163.76	160.35	108.66	130.57	162.37	164.22	134.14	136.41
Denmark (30)	291.89	-0.4	285.57	195.49	233.21	235.44	-0.3	1.90	292.98	286.60	194.40	233.59	236.06	305.17	272.15	272.28
Finland (23)	186.83	0.8	182.78	125.13	149.27	186.77	0.9	2.67	165.31	181.46	122.96	147.75	185.05	278.11	171.73	199.74
France (97)	195.04	0.5	190.82	130.62	155.83	159.09	0.8	3.01	194.05	190.02	128.76	154.71	157.88	198.39	167.70	188.91
Germany (60)	186.65	0.8	183.24	111.74	133.30	133.30	1.0	1.87	165.60	162.17	109.88	132.03	132.03	174.38	149.48	151.84
Hong Kong (59)	424.74	0.6	415.55	284.48	339.35	421.89	0.6	3.35	422.20	413.44	280.14	336.62	419.35	451.18	346.81	365.95
Ireland (16)	278.21	0.3	272.19	186.32	222.28	251.20	0.2	3.31	277.48	271.72	184.11	221.23	250.62	279.02	220.81	224.58
Italy (59)	83.17	0.4	81.37	55.70	66.45	96.89	0.5	2.26	82.88	81.16	54.99	66.08	96.26	83.87	67.22	77.85
Japan (481)	155.90	-0.3	152.53	104.41	124.56	104.41	0.7	0.73	156.34	153.10	103.74	124.65	103.74	164.68	137.75	153.38
Malaysia (107)	567.58	-0.3	556.31	380.13	453.48	545.51	-0.1	1.59	569.46	557.64	377.85	454.03	546.06	585.09	425.77	513.63
Mexico (18)	1278.15	1.0	1250.48	856.01	1021.19	10347.52	0.3	1.36	1265.80	1239.63	838.96	1009.30	10313.42	1313.81	791.99	1031.80
Netherland (19)	292.00	0.5	285.68	195.56	233.30	228.95	0.8	3.14	290.44	284.41	192.72	231.57	227.22	293.82	237.16	242.09
New Zealand (15)	80.82	-1.2	79.07	54.12	64.57	62.30	-1.3	4.29	81.77	80.07	54.26	65.20	63.13	85.49	76.26	82.10
Norway (33)	245.01	0.0	239.70	164.09	195.75	219.19	0.1	2.37	244.93	239.85	162.52	195.28	218.94	255.75	216.04	219.27
Singapore (44)	428.55	-0.6	419.27	287.01	342.39	277.96	-0.5	1.37	431.31	422.35	286.18	343.88	279.32	465.21	365.81	396.08
South Africa (45)	365.87	1.9	357.95	245.03	292.31	345.65	0.8	2.06	358.96	351.51	238.18	286.20	342.86	437.76	338.91	353.15
Spain (37)	174.94	-0.3	171.16	117.16	139.77	169.86	0.1	3.27	175.44	171.80	116.41	139.88	169.78	179.85	141.19	144.78
Sweden (48)	348.11	1.0	340.58	233.14	278.13	348.75	0.8	2.31	344.61	337.45	228.66	274.75	346.09	352.28	250.83	253.27
Switzerland (38)	234.70	0.3	229.62	157.18	187.52	152.36	0.5	1.82	234.06	229.19	155.30	186.61	181.41	252.34	184.17	198.34
Thailand (46)	182.14	-1.0	178.20	121.98	145.52	178.64	-0.9	1.83	183.94	180.12	122.05	146.65	180.18	193.95	146.74	166.46
United Kingdom (201)	231.42	0.5	226.41	154.98	184.90	226.41	0.4	4.07	230.25	225.47	152.78	183.58	225.47	237.43	208.12	210.84
USA (625)	271.41	0.6	265.53	181.77	216.84	271.41	0.6	2.16	269.75	264.16	178.99	216.07	269.75	271.41	212.45	215.23
Americas (770)	248.02	0.6	242.65	166.10	198.16	208.47	0.6	2.16	246.56	241.45	163.60	196.59	207.26	248.02	195.09	197.32
Europe (713)	207.68	0.5	203.19	139.09	165.93	184.11	0.6	3.04	206.68	202.39	137.14	164.79	183.08	211.35	181.77	184.87
Nordic (134)	296.63	0.7	290.21	198.66	237.00	261.50	0.6	2.30	294.65	288.54	195.51	234.93	260.05	297.80	241.96	243.36
Pacific Basin (832)	169.10	-0.2	165.44	113.25	135.11	115.81	0.6	1.16	169.44	165.92	112.43	135.09	115.27	177.01	148.88	162.97
Euro-Pacific (1545)	185.07	0.1	181.06	123.95	147.86	141.71	0.6	2.04	184.85	181.01	122.65	147.38	140.92	190.57	166.51	171.91
North America (724)	264.75	0.6	259.02	177.31	211.53	264.07	0.6	2.17	263.17	257.71	174.62	209.83	262.51	264.75	207.93	210.35
Europe Ex. UK (512)	189.65	0.5	185.54	127.01	151.52	158.87	0.7	2.48	188.75	184.84	125.24	150.49	157.94	192.67	169.36	166.38
Pacific Ex. Japan (351)	291.65	0.1	285.33	195.32	233.01	250.55	0.2	2.95	291.20	285.15	193.22	232.17	250.15	298.68	243.59	255.74
World Ex. US (1735)	186.45	0.2	182.42	124.87	148.97	146.25	0.6	2.04	186.16	182.30	123.52	148.43	145.45	191.55	167.36	172.62
World Ex. UK (2159)	210.80	0.3	206.23	141.18	168.42	177.77	0.8	1.90	210.09	205.73	139.40	167.50	176.73	212.60	179.23	182.95
World Ex. Japan (1879)	244.16	0.5	238.87	163.52	195.07	232.03	0.6	2.50	242.84	237.80	161.13	193.61	230.78	244.16	201.25	204.15
The World Index (2360)	212.69	0.3	208.09	142.44	169.93	182.25	0.6	2.09	211.94	207.54	140.63	168.98	181.24	214.52	181.82	185.40

CONSTITUENT CHANGES 15/5/96: Additions: Hafslund Asa A & B (Small Cap) and Nycomed Asa A & B (Large Cap) (all Norway). Deletions: Hafslund Nycomed A & B (Norway). Latest prices were unavailable for this edition.

EUROPE

Kaufhof stands out in sleepy Frankfurt

On the run-in to today's Ascension Day holiday, senior bourses were unwilling to respond to yesterday's touch on the Wall Street accelerator.

FRANKFURT was lethargic after the Bundesbank left key interest rates unchanged, the Dax index ending 6.20 higher at an Ibis-indicated 2,534.40. Turnover eased from DM8.9bn to DM8.3bn.

Kaufhof stood out with a rise of DM13 to DM512; its quoted *partner in the Metro merger*, Asko, put on DM15 at DM975. Both retailers were up 7.1 per cent on the month, against a Dax gain of just 1.7 per cent.

Mr Harry Christopoulos at BZW in Frankfurt said his fair value estimates for the stocks were DM631 and DM1,277 respectively, indicating discounts of 19 and 24 per cent at last night's prices.

PARIS concentrated on individual stories as the CAC-40 index advanced 2.56 to 2,124.64.

Renault continued to suffer on news that the government's stake in the vehicle manufacturer was to fall below 50 per cent. The shares lost FFr1.70 to FFr146.30. James Capel observed that the government's sale was symbolic, although the group's other minority shareholders, such as Elf Aquitaine, Lagardère, BNP and Rhône-Poulenc, would probably benefit from being able to increase their holdings.

Schneider, the electrical and construction group, which reported a 7 per cent gain in first-quarter sales, rose FFr7.20 or 3 per cent to FFr243.2, while Docks de France recovered from Tuesday's heavy fall, putting on FFr73, or 7.5 per cent, at FFr1,054. Another gainer was Lafarge, ahead FFr18.10 at FFr346.80 on better than expected first-quarter sales data. Usinor Sacilor made FFr2.15 to FFr84.75 on a similar story.

MILAN *paused after the* rally of the previous four sessions, awaiting tomorrow's options expiry, and the Comit index eased 1.53 to 665.42.

Parmalat, the dairy products and foods group, dropped 7.5 per cent in early trade before picking up to close L63 lower at L1,727 on Tuesday's unexpected news that it was planning a rights issue to raise at least L500bn to cut debt and fund further expansion.

Mr Roberto Bogoni at Merrill Lynch stayed cautious on the stock: he cited a sharp reduction in its dividend, indicating a desperate need for cash; the capital increase and earnings dilution; and uncertainty about the allocation of the new financial resources.

Among the winners, Eni remained on its recent roll, adding L106 at L7,188.

ZURICH looked to a drinks sector merger for excitement as the broad market gave up early gains on profit-taking and a weak domestic bond market, and the SMI index shed 9.9 to 3,572.5.

Shares in Huerlimann, the brewer, were punished as the market adjusted prices for the planned merger with the country's largest beverage group, Feldschloesschen.

Although the industrial logic of the move was regarded as positive for both companies, analysts said that the fall in Huerlimann's shares was a reaction to the complexity of the transaction. Investors were also disappointed that the merged group would maintain three types of securities, bearer, registered and participation certificates, countering the recent trend towards simplifying share structures.

Huerlimann's certificates plunged 8.6 per cent to SFr425, the bearers declined 7 per cent to SFr4,550 and the registered were down 6 per cent to SFr2,350.

Feldschloesschen's thinly traded participation certificates were up 9.1 per cent to SFr1,200, while the more liquid bearers and registered were unchanged.

AMSTERDAM was winding down for today's holiday, while the expiry of options tomorrow was an added factor in keeping activity quiet. Royal Dutch provided an exception with a gain of Fl 8.30 to Fl 283.70 following forecasts of a rise in US petrol prices and an increase in demand during the summer.

The AEX index closed 1.02 firmer at 568.93.

Another good move was recorded by Ballast Nedam, up Fl 5.30 at Fl 74.80, as a broker raised its recommendation on the stock owing to the building and dredging group's promising order book.

HELSINKI again featured the apparently unstoppable Raisio, which roared another FM40 higher to FM271 as the Hex index picked up 23.76 to 1,990.89. In OSLO, where the total index eased 2.25 to 818.78, the newly demerged Nycomed A added NKr0.50 at NKr142.50 and Hafslund A dipped NKr4.00 to NKr52. Uni Storebrand lost NKr0.80 to NKr29.10 on results.

COPENHAGEN was flat, the KFX top 20 index rising 0.17 to 113.76 as FLS picked up another DKr4 to DKr612, taking its rise since the start of the year to 40 per cent. STOCKHOLM saw the debut of Swedish Match, up SKr21.90 from an opening SKr20 as the Affärsvärlden General index rose 3.8 to 1,973.1.

ATHENS saw OTE, the privatised telecoms stock, react to the threat of court proceedings involving a contract with a switch supplier. The stock, expected to enter the general index next week with an 11 to 12 per cent weighting, fell below its IPO price, closing Dr40 lower at Dr3,980, after a high of Dr4,560 on April 22. The index itself closed 7.36 lower at 911.97.

ISTANBUL slid by 4.7 per cent after the Islamist opposition succeeded in having Turkey's constitutional court invalidate a March confidence vote in the Conservative coalition. The composite index picked up from a morning low of 63,270, but it still lost 3,206.41 at 64,562.11.

Written and edited by William Cochrane, Michael Morgan and John Pitt

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

May 15 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1681.79	1681.44	1681.60	1681.67	1681.32	1682.01	1682.39	1682.60
FT-SE Eurotrack 200	1729.95	1728.27	1727.58	1727.79	1728.01	1729.63	1731.53	1729.27

	May 14	May 13	May 10	May 9	May 8
FT-SE Eurotrack 100	1678.81	1668.58	1657.69	1662.44	1654.86
FT-SE Eurotrack 200	1725.86	1714.61	1712.90	1704.49	1699.30

Base value 1000 (26/10/90); Highs/day: 100 - 1683.38; 200 - 1731.61 Low/day: 100 - 1680.46 200 - 1726.73; † Partial.

ASIA PACIFIC

Nikkei climbs 3.5% in biggest rise this year

Tokyo

Equities scored their biggest daily gain this year, the Nikkei average climbing 3.5 per cent as receding concerns over an imminent interest rate rise combined with technical influences and a further gain in the dollar against the yen, *writes Emiko Terazono in Tokyo.*

The 225 index rose 754.92 to 22,055.97, having touched 21,371.38 and 22,060.79. Worries over rising interest rates receded due to the Bank of Japan's generous infusion of funds into the money market *on Tuesday, which pushed the* overnight call rate to match its record low of 0.39 per cent.

Mr Yasuo Matsushita, governor of the BoJ, confirmed that its monetary policy was unchanged, while Mr Eisuke Sakibara of the Ministry of Finance cautioned investors expecting interest rates to rise, prompting yen selling.

In addition, US hedge funds placed large-lot orders in the Osaka futures market, triggering arbitrage buying. The sharp rise in share prices forced investors with short positions to buy back shares, pushing the index up even further, said Mr Yasuo Ueki at Nikko Securities.

Volume was 542m shares, *against 291m.* Overseas investors, recently inactive, bought steels and shipbuilders, while individuals continued to trade speculative favourites.

The Topix index of all first section stocks rose 38.15, or 2.3 per cent, to 1,690.16 and the Nikkei 300 by 7.39, or 2.4 per cent, to 312.77. Advances outpaced declines by 1,038 to 114, with 84 issues unchanged.

In London the ISE/Nikkei 50 index gained 2.84 at 1,476.15.

The yen's depreciation helped *export-orientated companies.* Among high-technology stocks, Toshiba climbed Y18 to Y802 and Matsushita Electric Industrial Y40 to Y1,830. Carmakers had Toyota Motor ahead Y30 at Y2,370 and Nissan Motor up Y20 at Y862.

Nippondenso, a car parts maker and a subsidiary of Toyota, gained Y100 at Y2,270 on its announcement that it will purchase Y20bn worth of its own stock this year. Individuals bought Copal, a camera shutter maker, which rose Y100 to Y1,110.

In Osaka, the OSE average put on 416.39 at 23,353.17 in 75.7m share volume. Nintendo, the video game maker, moved forward Y120 to Y8,350.

Roundup

News that Mr Atal Behari Vajpayee, the BJP prime *ministerial candidate, would* be sworn in today heralded an intra-day recovery in BOMBAY, and a sharp drop in KARACHI.

Indian equities finished sharply up from the day's lows, as speculators tried to keep up with the fast moving political action. The BSE-30 index rebounded from 3,728.86 to finish a net 13.84 off at 3,796.29.

In Pakistan the prospect of a Hindu nationalist as Indian prime minister left the KSE 100 index down 39.31, or 2.2 per cent, at 1,735.10 and dealers said prices were likely to fall further today.

SINGAPORE dropped 1.9 per cent, led by falls in property issues on a government package of measures to curb property speculation.

The Straits Times Industrial index lost 43.67 to 2,321.50 and the SES property index recovered from its low of 677.69 to end at 690.61, still 40.24, or 5.5 per cent, down.

DBS Land led the actives list and fell 29 cents to S$4.86.

HONG KONG largely overlooked the expected announcement of US trade sanctions against China, past experience suggesting that there would be a deal during the 30-day period before sanctions took effect.

The Hang Seng index ended 45.95 higher at 10,863.88 in turnover of HK$4.4bn.

HSBC moved ahead HK$1 to close at HK$114.50, while *Cheung Kong continued to outperform* other key developers, advancing HK$1 to HK$53.50.

TAIPEI questioned the quality of the rally which had been taking place ahead of next Monday's presidential inauguration, and the weighted index, which topped 6,200 briefly in early trade, eventually closed 60.42 lower at 6,095.41.

WELLINGTON's NZSE-40 index fell 12.52 to 2,080.12. Results from Telecom, 8 cents weaker at NZ$5.99, were in line with expectations; brokers were less happy about capital expenditure projections for the current year.

BANGKOK saw impressive first-quarter results in the energy sector. Electricity Generating rose Bt2.50 to Bt94 as the SET index moved 7.34 higher to 1,336.60.